### Wage Subsidy CP

#### Text: [Insert aff actor] ought to create a wage subsidy equal to the difference between an employee’s current wage and the aff’s proposed living wage that is distributed as a fraction of each paycheck. Jaywork ’14

Casey Jaywork. Wage subsidy outsmarts a $15 Minimum. http://www.capitolhilltimes.com/2014/01/wage-subsidy-outsmarts-15-minimum/

Thanks to mass protests by fast-food workers and the activism of recently-elected Seattle City Councilmember Kshama Sawant, a socialist, a $15 minimum wage is on its way to Seattle. The increase is embraced by Mayor Murray and virtually all councilmembers. And if the council doesn’t mandate it first, Sawant swears to push the minimum wage increase through via public referendum this November. There’s little question that a $15 minimum wage, by supporting workers and increasing consumption, is preferable to the current state of affairs. But while wealth should be redistributed to the working poor (or, as Marxists have it, returned), I argue that a wage subsidy is a more elegant method. Essentially, it’s a negative income tax administered via wages rather than via tax forms. According to Edmund Phelps, who received a Nobel Prize in Economic Sciences, wage subsidies “bid up the wages of low-wage people, and that same bidding for more low-wage people in the labor market would pull up their employment too.” Coupled with increased tax revenues from employers, it would accomplish the same goal as a minimum wage, but more effectively. Another Nobel Prize-winning economist, Milton Friedman, developed the negative income tax as an alternative to traditional welfare. Rather than deliver welfare assistance piecemeal by bureaucracies, Friedman advocated a simple cash subsidy to the poor, on the theory that they know best how to spend it. A version of the negative income tax already exists in the form of the federal Earned Income Tax Credit, which is widely endorsed by economists of all stripes. A wage subsidy would improve on the Earned Income Tax Credit by replacing the red tape of tax forms with automatic distribution via wages. Just as the federal government removes a fraction from each paycheck for Social Security, the Seattle government could add a fraction to each paycheck as a wage subsidy, requiring no additional paperwork for employees.

#### The counterplan is mutually exclusive with the affirmative; it makes up the difference between current wages and the Affs proposed increase. A permutation means there is no difference in wages and no subsidy will be distributed.

#### Net-Benefits: First, Wage subsidies have no negative effect on employment rates. Jaywork ‘14

Casey Jaywork. Wage subsidy outsmarts a $15 Minimum. http://www.capitolhilltimes.com/2014/01/wage-subsidy-outsmarts-15-minimum/

A wage subsidy would also circumvent one of the strongest (logical, if not empirical) arguments against a minimum wage: that it will discourage firms from taking on more employees. This is why, in 2010, Joseph Stiglitz (yet another Nobel Prize winner in Economic Sciences) and several other influential economists urged congressional leaders to implement a “hiring tax credit” similar to a wage subsidy, calling it “a cost-effective way to create jobs.” While there’s not much evidence that a higher minimum wage actually discourages employment in the messy real world – where there are dynamics other than elasticity of demand for labor – it’s true that, other things equal, a business that pays $15 per hour, per worker will buy fewer hours of labor than a business that only pays $10. A wage subsidy would eliminate this theoretical disincentive because businesses would pay extra taxes to fund the subsidy regardless of whether they hired more employees; there wouldn’t be a direct causal relationship between number of employees and extra cost of employees. The tax base that funds the subsidy could be limited to apply only to employers, so that, as with a minimum wage, money would be redistributed from businesses to workers, but without discouraging employment.

#### Second, Empirics prove positive effect on employment that increases over time- wide sample size of panel data and checked for heterogeneity. Rotger and Arendt 10

Gabriel Pons Rotger, Corresponding author, Senior Researcher, PhD, AKF, Danish Institute of Governmental Research, and Jacob Nielsen Arendt, Associate Professor, PhD, Institute of Public Health, Research Unit for Health Economics, “The Effect of a Wage Subsidy on Subsidised Firm’s Ordinary Employment,” AKF, Danish Institute of Governmental Research, 2010

This paper estimates the causal effect of a new wage subsidy on subsidised firms’ ordinary employment along the subsidised period for 2,600 Danish firms which hired a subsidised employee in the spring of 2006. The paper exploits the availability of panel data on the outcome variable, firm’s monthly ordinary employment, to use an annually differenced outcome variable, and conditioning on the last thirteen monthly lags of the firm’s monthly ordinary employment in the spirit of Card & Sullivan (1988). The paper applies matching on a ‘matched sample’ method of Rubin (2006) in order to minimise the unbalance between treatment and control group. We find that hiring a subsidised employee has a significant positive average employment effect on the subsidised firm already 1 month after the beginning of the subsidised contract. As time passes, the positive effect on the firm’s ordinary employment increases suggesting that on average subsidised employers tend to hire the subsidised employee on ordinary terms or use subsidy to financing the hiring of other individuals on ordinary conditions. We find at the same time evidence on heterogeneity of the responses. Most important, seasonal employers seem to replace seasonal ordinary employment by subsidized one, and this given the lack of effective preventing mechanism at the scheme, suggest to reinforce the control of seasonal firms regarding their use of subsidized employees. Another relevant finding is that employers who use in higher extent subsidized and other forms of non-ordinary employment and who given the design of the subsidy scheme have incentives to permanently use wage subsidies do not present significative differences in terms of treatment effect with respect to the average effect on their ordinary employees. This finding reinforces the average evidence on the wage subsidy has been effective and efficient in terms of employment generation in Denmark in the period under study.

### Generic Turn File

#### Turn: 70 years of studies proves a consensus that increases in minimum wages cause unemployment on low-wage workers. Wilson ‘12

Mark Wilson, CATO Institute, 2012, The Negative Effects of Minimum Wage Laws, <http://www.downsizinggovernment.org/labor/negative-effects-minimum-wage-laws> Mark Wilson is a former deputy assistant secretary of the U.S. Department of Labor. He currently heads Applied Economic Strategies, LLC, and has more than 25 years of experience researching labor force economic issues.

Despite the use of different models to understand the effects of minimum wages, all economists agree that businesses will make changes to adapt to the higher labor costs after a minimum wage increase. Empirical research seeks to determine what changes to variables such as employment and prices firms will make, and how large those changes will be. The higher costs will be passed on to someone in the long run; the only question is who. The important thing for policymakers to remember is that a decision to increase the minimum wage is not cost-free; someone has to pay for it. The main finding of economic theory and empirical research over the past 70 years is that minimum wage increases tend to reduce employment. The higher the minimum wage relative to competitive-market wage levels, the greater the employment loss that occurs. While minimum wages ostensibly aim to improve the economic well-being of the working poor, the disemployment effects of a minimum wages have been found to fall disproportionately on the least skilled and on the most disadvantaged individuals, including the disabled, youth, lower-skilled workers, immigrants, and ethnic minorities.15 In his best-selling economics textbook, Harvard University's Greg Mankiw concludes: The minimum wage has its greatest impact on the market for teenage labor. The equilibrium wages of teenagers are low because teenagers are among the least skilled and least experienced members of the labor force. In addition, teenagers are often willing to accept a lower wage in exchange for on-the-job training. . . . As a result, the minimum wage is more often binding for teenagers than for other members of the labor force.16 Research by Marvin Kosters and Finis Welch shows that the minimum wage hurts low-wage workers particularly during cyclical downturns.17 And based on his studies, Nobel laureate economist Milton Friedman observed: "The real tragedy of minimum wage laws is that they are supported by well-meaning groups who want to reduce poverty. But the people who are hurt most by higher minimums are the most poverty stricken."18 In a generally competitive labor market, employers bid for the most productive workers and the resulting wage distribution reflects the productivity of those workers. If the government imposes a minimum wage on the labor market, those workers whose productivity falls below the minimum wage will find few, if any, employment opportunities. The basic theory of competitive labor markets predicts that a minimum wage imposed above the market wage rate will reduce employment.19 Evidence of employment loss has been found since the earliest implementation of the minimum wage. The U.S. Department of Labor's own assessment of the first 25-cent minimum wage in 1938 found that it resulted in job losses for 30,000 to 50,000 workers, or 10 to 13 percent of the 300,000 covered workers who previously earned below the new wage floor.20 It is important to note that the limited industries and occupations covered by the 1938 FLSA accounted for only about 20 percent of the 30 million private sector, nonfarm, nonsupervisory, production workers employed in 1938. And of the roughly 6 million workers potentially covered by the law, only about 5 percent earned an hourly rate below the new minimum.21 Following passage of the federal minimum wage in 1938, economists began to accumulate statistical evidence on the effects. Much of the research has indicated that increases in the minimum wage have adverse effects on the employment opportunities of low-skilled workers.22 And across the country, the greatest adverse impact will generally occur in the poorer and lower-wage regions. In those regions, more workers and businesses are affected by the mandated wage, and businesses have to take more dramatic steps to adjust to the higher costs. As an example, with the original 1938 imposition of the minimum wage, the lower-income U.S. territory of Puerto Rico was severely affected. An estimated 120,000 workers in Puerto Rico lost their jobs within the first year of implementation of the new 25-cent minimum wage, and the island's unemployment rate soared to nearly 50 percent.23 Similar damaging effects were observed on American Samoa from minimum wage increases imposed between 2007 and 2009. Indeed, the effects were so pronounced on the island's economy that President Obama signed into law a bill postponing the minimum wage increases scheduled for 2010 and 2011.24 Concern over the scheduled 2012 increase of $0.50, compelled Governor Togiola Tulafono to testify before Congress: "We are watching our economy burn down. We know what to do to stop it. We need to bring the aggressive wage costs decreed by the Federal Government under control... Our job market is being torched. Our businesses are being depressed.  Our hope for growth has been driven away."25 In 1977 ongoing debate about the minimum wage prompted Congress to create a Minimum Wage Study Commission to "help it resolve the many controversial issues that have surrounded the federal minimum wage and overtime requirement since their origin in the Fair Labor Standards Act of 1938."26 The commission published its report in May 1981, calling it "the most exhaustive inquiry ever undertaken into the issues surrounding the Act since its inception."27 The landmark report included a wide variety of studies by a virtual ‘‘who's who'' of labor economists working in the United States at the time.28 A review of the economic literature amassed by the Commission by Charles Brown, Curtis Gilroy, and Andrew Kohen found that the "time-series studies typically find that a 10 percent increase in the minimum wage reduces teenage employment by one to three percent."29 This range subsequently came to be thought of as the consensus view of economists on the employment effects of the minimum wage. It is important to note that different academic studies on the minimum wage may examine different regions, industries, or types of workers. In each case, different effects may predominate. A federal minimum wage increase will impose a different impact on the fast-food restaurant industry than the defense contractor industry, and a different effect on lower-cost Alabama than higher-cost Manhattan. This is why scholarly reviews of many academic studies are important. In 2006 David Neumark and William Wascher published a comprehensive review of more than 100 minimum wage studies published since the 1990s.30 They found a wider range of estimates of the effects of the minimum wage on employment than the 1982 review by Brown, Gilroy, and Kohen. The 2006 review found that "although the wide range of estimates is striking, the oft-stated assertion that the new minimum wage research fails to support the traditional view that the minimum wage reduces the employment of low-wage workers is clearly incorrect. Indeed . . . the preponderance of the evidence points to disemployment effects."31 Nearly two-thirds of the studies reviewed by Neumark and Wascher found a relatively consistent indication of negative employment effects of minimum wages, while only eight gave a relatively consistent indication of positive employment effects. Moreover, 85 percent of the most credible studies point to negative employment effects, and the studies that focused on the least-skilled groups most likely to be adversely affected by minimum wages, the evidence for disemployment effects were especially strong. In contrast, there are very few, if any, studies that provide convincing evidence of positive employment effects of minimum wages. These few studies often use a monopsony model to explain these positive effects. But as noted, most economists think such positive effects are special cases and not generally applicable because few low-wage employers are big enough to face an upward-sloping labor supply curve as the monopsony model assumes.32

#### And, reject case studies; large sample size is key. Neumark and Wascher 06

David Neumark (Professor of Economics at the University of California at Irvine, Research Associate at the National Bureau of Economic Research, and Research Fellow at IZA) and William Wascher (Deputy Associate Director in the Division of Research and Statistics at the Board of Governors of the Federal Reserve System). “Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research.” National Bureau of Economic Research. November 2006. http://www.nber.org/papers/w12663.pdf

Finally, we reiterate our concerns about drawing broad inferences from case studies of the effects of a particular minimum wage increase. Although case studies of a minimum wage increase in one state that provide estimates for total employment or for a variety of industries do not suffer from the same problems faced by studies that focus on one particular industry, they still are subject to biases associated with demand shocks or sampling variation that might be correlated with the minimum wage increase. In contrast, a larger panel data study that averages over many episodes of minimum wage increases is more likely to produce reliable results because other unobserved shocks will tend to average out and because sampling variation will be smaller.

#### And, recent research indicates stronger unemployment effect and weaker wage effects. Neumark et al 12

David Neumark, UCI, NBER and IZA, Matthew Thompson, Charles River Associates, and Leslie Koyle, Charles River Associates, “The Effects of Living Wage Laws on Low-Wage Workers and Low-Income Families: What Do We Know Now?” Institute for the Study of Labor, IZA Discussion Paper No. 7114, December 2012

As reported in Table 7, we found little evidence of effects higher up in the wage or skill distribution. The wage effects were small and centered on zero, and not statistically significant. The estimated employment effects were also small and statistically insignificant, although more uniformly negative. These results suggest that effects of living wages on the distribution of family incomes stem mainly from the effects of living wages on the lowest-wage and lowest-skilled workers. Moreover, the absence of any evidence higher up in the wage or skill distribution paralleling that for the lowest-wage, lowest-skill workers makes it less likely that our results for the latter groups reflect spurious effects of change in economic conditions correlated with living wages. That is, these results serve as a placebo test. Based on our updated evidence, there is now stronger evidence of disemployment effects, and it is not only limited to business assistance living wage laws. And there is weaker evidence of wage effects. Two points related to these findings merit discussion. First, in the earlier work, the stronger evidence of effects of business assistance living wage laws was attributed to the likely higher coverage of these laws as well as other features of those laws, although the evidence was not decisive (see Adams and Neumark, 2005a and 2005b). There is no indication one way or another that coverage of contractor-only laws has increased because of some inherent broadening of the laws. However, the laws may now have stronger effects, because in the earlier years of living wage laws, there may have been a greater preponderance of non-renewed contracts that were not covered. It is true that the business assistance provisions also often applied only to new assistance. But as discussed earlier, these business assistance provisions may have broader effects. Second, the early wave of research on living wages was based on relatively few periods covering a fairly small number of cities. As a result, the results were described as somewhat provisional, requiring more data and more analysis for confirmation.36 Consequently, it is not surprising that there are some changes in the answers relative to the earlier research, although in general most of the qualitative results persist, including the results for poverty discussed below. At the same time, the above discussion regarding the problems of aggregating geographic data on U.S. cities, using CPS data, indicates that we have been unable to add a large number of years of data with reliable measurement of living wages.

#### And, unemployment is worse for the poor than low wages. ALEC 14

American Legislative Exchange Council, ALEC is the nation's largest non-partisan, individual public-private membership association of state legislators, drafts and shares model state-level legislation for distribution among state governments in the United States. “Raising the Minimum Wage: The Effects on Employment, Businesses and Consumers.” March 2014. http://www.alec.org/wp- content/uploads/Raising\_Minimum\_wage.pdf

The problem plaguing America’s poor is not low wages, but rather a shortage of jobs.34 At a time when the nation’s workforce participation is only 62.8 percent, policymakers must avoid policies that destroy job opportunities.35 Increasing the minimum wage does nothing to help the unemployed poor. In fact, as discussed above, it hurts individuals looking for employment as it decreases available job opportunities. So, who is helped by an increase to the minimum wage? According to a 2012 report from the Bureau of Labor Statistics, although workers under age 25 represented only 20 percent of hourly wage earners, they made up just over half (50.6 percent) of all minimum wage earners.36 The average household income of these young minimum wage earners was $65,900.37 Among adults 25 and older earning the minimum wage, 75 percent live well above the poverty line of $22,350 for a family of four, with an average annual income of $42,500.38 This is possible because more than half of older minimum wage earners work part-time and many are not the sole earners in their households.39 In fact, 83.5 percent of employees whose wages would rise due to a minimum wage increase either live with parents or another relative, live alone, or are part of a dual-earner couple.40 Only 16.5 percent of individuals who would benefit from an increase to the minimum wage are sole earners in families with children.41 With national unemployment still hovering around 7 percent, national, state, and local demands for an increased minimum wage could not be more ill-timed.42 Increasing the minimum wage would make it more difficult for emerging businesses to expand payrolls and for existing businesses to maintain employees. Further, a higher wage rate would make it more difficult for individuals with less education and experience to find work. Raising the minimum wage favors those who already have jobs at the expense of the unemployed. Public policy would be more beneficial if it lowered barriers to entry for employment and increased economic opportunities. Raising the minimum wage may be a politically attractive policy option, but it is harmful to the very people policymakers intend it to help.

#### Turn: Living wage causes job loss and cut in hours among small businesses. ALEC 14

American Legislative Exchange Council, ALEC is the nation's largest non-partisan, individual public-private membership association of state legislators, drafts and shares model state-level legislation for distribution among state governments in the United States. “Raising the Minimum Wage: The Effects on Employment, Businesses and Consumers.” March 2014. http://www.alec.org/wp- content/uploads/Raising\_Minimum\_wage.pdf

When the government imposes a higher minimum wage, employers face higher labor costs and are forced to respond by decreasing other production expenses.3 Some employers make labor-saving capital investments that reduce reliance on employees, decrease pay raises to employees that earn more than the minimum wage, or replace the lowest-skilled individuals with more highly skilled employees. 4 Other firms may make adjustments such as reducing employees’ hours, non-wage benefits or training.5 Businesses cannot afford to pay employees more than those employees produce on the aggregate. Employees who are paid the minimum wage earn that wage rate because they lack the productivity to command higher pay.6 Advocates of increasing the minimum wage rely on the idea that businesses are able but unwilling to pay higher wages to their employees. The hope is that these businesses will simply take a hit in their profits while employment and prices are negligibly affected. Unfortunately, most minimum wage earners work for small businesses, rather than large corporations.7 According to an analysis by the Employment Policies Institute, roughly half of the minimum wage workforce is employed at businesses with fewer than 100 employees, and 40 percent work at businesses with fewer than 50 employees.8 Small businesses face a very competitive market and often push profits as low as they can go to stay open. Minimum wage earners employed by large corporations would also be affected, because these corporations are under tremendous pressure from shareholders to keep costs low. Last year, the California chapter of the National Federation of Independent Business (NFIB) projected the potential negative effects of the state’s 2013 legislation that raises California’s minimum wage rate to $9 per hour in 2014 and again to $10 by 2016.9 It estimated the increase to the wage rate would shrink the California economy by $5.7 billion in the next 10 years and result in approximately 68,000 jobs being cut from the state. It further projected that 63 percent of the estimated 68,000 jobs lost would be from small businesses that could no longer afford to pay their employees.10 The bottom line is that someone must pay for the costs associated with an increased minimum wage. Often, because a business cannot pay these costs, they are paid for by the individuals the minimum wage is intended to help—low-skilled, undereducated individuals— as they lose out on job opportunities.

#### And, small businesses represent the vast majority of the workforce and source of new jobs- living wage hits them the hardest. Clark and Saade 10

L. Clark III and Radwan Saade - September 2010. The Role of Small Business in Economic Development of the United States: From the End of the Korean War (1953) to the Present. SBA Office of Advocacy.

Small businesses currently represent 98 percent of all businesses in the United States and they generate nearly 64 percent of all net new jobs in this country. xxxix Moreover, small businesses are generally considered to be the first line of employment and thus the initial training grounds for this nation’s workforce. xl There are twenty-nine million small businesses in the United States. xli The SBA estimates that just over half of all employees in the U.S. work for a small firm, and that small business employers provide approximately 44.5 percent of payroll in the private sector. Ninety-seven percent of all exporters are small business owners, comprising 29 percent of total exports. xlii The most powerful statistic, however, is that 60 to 80 percent of all new jobs come from small businesses. This number fluctuates when some small businesses grow enough to become classified as large businesses, and when new small businesses are created. From 1999 to 2000, small businesses accounted for 75 percent of all new jobs created. By 2010, small businesses account for three quarters of net new jobs in the United States. xliii Small businesses have a long history of being this nation’s primary job creator, but as outlined above in the history of this nation’s economic policy formation, small businesses were not at the forefront in this nation’s policy manpower formation. The congressional policy “…that the government should aid, counsel, assist…the interest of small business concerns in order to preserve competitive enterprise….”, in the 1953 Small Business Act carried very little potency as it can be seen in the creation of the Labor Surplus area program. Xliv

#### Turn: Living wages will stifle corporate innovation—key to reducing product costs for consumers, which solves poverty. Phillips ‘13

BRIAN PHILLIPS. The Fallacy of “Living Wage.” 2013.03.06 http://capitalismmagazine.com/2013/03/the-fallacy-of-living-wage-2/

If the advocates of the “living wage” are truly convinced that arbitrary government dictates have no detrimental consequences on jobs, why don’t they advocate a “prosperity wage”? Instead of legislating a wage that allows families to “get by,” why don’t they legislate a wage that allows families to prosper? In other words, instead of a “living wage” of $10 an hour (or whatever the figure may be), why don’t legislators force businesses to pay $100 an hour? One would think that the answer is obvious, but apparently it isn’t. Few, if any, businesses could afford to pay $100 an hour. They would not create new jobs, and they would likely cut most of the jobs that they currently have. The results would be catastrophic. The difference between a “living wage” and a “prosperity wage” is only one of degree. The principle is the same. A “prosperity wage” would be devastating to jobs. So is a “living wage,” a minimum wage, or any other government mandated wage. The only difference is the number of jobs and lives destroyed. The real issue is not the nominal wage—what a worker is paid. The real issue is real wages—what that pay will purchase. If a worker’s pay increases 10% but prices increase 20%, he is not better off. His money does not purchase as much. However, if his wages decrease by 10% while prices fall 20%, he can purchase more even though he makes less money. To most Americans, the idea of falling prices probably seems like a fantasy. Prices for energy, health care, and food seem to increase almost daily. But consider computers, cell phones, and flat screen televisions—their prices have fallen significantly. And in the late 19th century, wages fell while prices fell even more. Between 1870 and 1889, wages for non-farm labor decreased from $1.57 per day to $1.39 per day, a decrease of 10.2 percent. During the same period, the Consumer Price Index decreased 28.9 percent. Even though wages for unskilled labor fell by more than ten percent over twenty years, prices fell by nearly three times as much, that is, a dollar bought a lot more. Further, there was much more available: Canned goods became widely available in the 1880s, which provided a much more varied diet, such as fruits and vegetables that were not in season; refrigerated railroad cars made it possible for urban residents to eat fresh meat, grapes, and strawberries more frequently; improvements in the sewing machine enabled manufacturers to mass produce clothing at low prices; department stores offered consumers wide selections in clothing, household goods, and more. In short, the unskilled worker’s life was immensely better in 1889 than it had been in 1870. In a free market, this will always be the case. The items that are rapidly increasing in price today are, in general, heavily regulated industries. Government intervention stifles innovation and makes production more expensive. The items that are falling in price are in industries that are less regulated, which means more innovation and greater ease of producing those values. The fundamental issue is not wage rates, but productivity. When production increases, prices fall. This was true of kerosene, which the price of kerosene steadily decreased from fifty-eight cents a gallon in 1865 to ten cents a gallon in 1874. It was true of the Model-T, which decreased from $850 in 1908 to $290 in 1924. When prices fall, a consumer can purchase more of the given item, even if his own wages decrease. But why would a worker’s wage decrease. Again, the issue is productivity. If a worker desires a higher wage, he must produce more in a given period of time. A farmer who uses only manual labor can only grow, for example, 100 bushels of corn a year. A farmer who uses animal labor can grow 1,000 bushels of corn a year. A farmer who uses machinery can grow 100,000 bushels of corn a year. As the farmer produces more his income increases. The focus on wages reverses cause and effect. The focus on wages is a focus on consumption—what a worker can buy from his wages. But an individual cannot consume until he produces, unless he wishes to live as a parasite. Government intervention impedes production. Government intervention prevents individuals from starting businesses, creating jobs, developing new products or processes. Government intervention prevents individuals from acting on their own judgment. If someone wants to offer a job with a pay of $2 an hour, he should be free to do so. If he cannot attract enough workers at that wage, he will need to offer more or go out of business. If a worker is willing to work for $2 an hour, why should anyone prevent him from doing so? If the business owner judges that a job is only worth $2 an hour, he should be free to act on his own judgment. If a worker judges that a job paying $2 an hour is his best opportunity, he should be free to act on his own judgment. Government intervention in the employer/employee relationship prohibits each from acting as he thinks best for his own life. Like all advocates of government intervention, the advocates of a “living wage” believe that they know what is best for other individuals. They are willing to use government coercion to dictate how others may live their lives. Ironically, and sadly, while advocating a “living wage” they simultaneously seek to prohibit others from actually living.

#### Turn: Companies will cut other forms of compensation to their workers, leaving them worse financially. Baird ‘02

Baird 02 Charles, a professor of economics and the director of the Smith Center for Private Enterprise Studies at California State University at Hayward, “The Living Wage Folly,” Ideas on Liberty, June 2002, pp. 16-19.

Sometimes profit-seeking entrepreneurs will try to avoid layoffs by cutting nonwage compensation paid to workers. For example, reductions in paid vacation time; employer contributions to retirement funds, employer paid medical insurance, and rates of sick leave accrual can sometimes offset the effect of a higher legal minimum wage. If so, affected workers will keep their jobs, but they will not be any better off than they were before the minimum-wage increase. In fact, they will probably be worse off because more of their compensation will be taxable than before.

#### Turn: The root cause is not insufficient wages but insufficient hours- living wage amplifies hour cuts that hurt workers. Horowitz 03

Carl F. Horowitz, Consultant on labor, welfare reform, immigration, and housing, former policy analyst at the Heritage Foundation, “Keeping the Poor Poor: The Dark Side of the Living Wage,” Cato Institute Policy Analysis No. 493, 21 October 2003.

Advocates of the living wage argue that it combats poverty, but the evidence does not support that claim. First, the problem for low-income Americans is really insufficient hours rather than insufficient wages. A Bureau of Labor Statistics report revealed that in 2000 only 3.5 percent of all household heads who worked full-time 27 weeks or more over the course of the year fell below the poverty line. By contrast, this figure was 10.2 percent for household heads who worked less than 27 weeks.23 The BLS study also revealed that only a few more than 20 percent of all household heads with below-poverty-line incomes attributed their condition solely to low earnings. The remaining 80 percent cited unemployment, involuntary part-time employment, or one or both of those factors in combination with low earnings. In addition, the Census Bureau reported that the median income in 1999 for household heads working full-time year-round (50 weeks or more) was $55,619. By contrast, household heads working full-time 27 to 49 weeks had a median income of only $38,868, and for those who worked full-time 26 weeks or less the figure was $26,001.24 An Employment Policies Institute analysis of 1995 Census Current Population Survey data concluded that only 44 percent of minimum wage employees worked full time.25

#### Minimal impact on reducing poverty—the higher wage will go to those that don’t need it. Gillespie ‘14

Nick Gillespie. Labor Day: Raising the Minimum Wage Stiffs the Poor. <http://time.com/3212237/minimum-wage-labor-day-california/>. 2014

Increasing the minimum wage is typically sold as a way of aiding poor people — LA business magnate and philanthropist Eli Broad says Garcetti’s plan “would help lift people out of poverty.” But it’s actually a pretty rotten way to achieve that for a number of reasons. For starters, minimum-wage workers represent a shrinking share of the U.S. workforce. According to the Bureau of Labor Statistics (BLS), the percentage of folks who earn the federal minimum wage or less (which is legal under certain circumstances) comes to just 4.3 percent of hourly employees and just 3 percent of all workers. That’s down from an early 1980s high of 15 percent of hourly workers, which is good news — even as it means minimum wage increases will reach fewer people. What’s more, contrary to popular belief, minimum-wage workers are not clustered at the low end of the income spectrum. About 50 percent of all people earning the federal minimum wage live in households where total income is $40,000 or more. In fact, about 14 percent of minimum wage earners live in households that bring in six figures or more a year. When you raise the minimum wage, it goes to those folks too. Also, most minimum-wage earners tend to be younger and are not the primary breadwinner in their households. So it’s not clear they’re the ones needing help. “Although workers under age 25 represented only about one-fifth of hourly paid workers,” says BLS, “they made up about half of those paid the federal minimum wage or less.” Unemployment rates are already substantially higher for younger workers — 20 percent for 16 to 19 year olds and 11.3 percent for 20 to 24 year olds, compared to just 5 percent for workers 25 years and older — and would almost certainly be made worse by raising the cost of their labor by government diktat. While a number of high-profile economists such as Paul Krugman have lately taken to arguing that minimum wage increases have no effect on employment, the matter is far from settled and basic economic logic suggests that increases in prices reduce demand, whether you’re talking about widgets or labor. Finally, there’s no reason to believe that people making the minimum wage are stuck at the bottom end of the pay scale for very long. According to one study that looked at earning patterns between 1977 and 1997, about two-thirds of workers moved above the minimum wage within their first year on the job. Having a job, even one that pays poorly, starts workers on the road to increased earnings.

#### Living wage does not effectively target those who need it. Pethokoukis ‘13

James Pethokoukis. There are better anti-poverty tools than the minimum wage. August 30, 2013 2:41 pm. http://www.aei.org/publication/there-are-better-anti-poverty-tools-than-the-minimum-wage/

Politicians, usually those on the left, frequently propose big hikes in the federal minimum wage — or even a dramatically higher “living wage” — as a way to fight poverty and help low-skill workers. A reasonable sounding idea to many Americans, and one that may be picking up momentum thanks to the glacial recovery in US incomes post-Great Recession. Fast-food workers in 60 US cities went on strike Thursday demanding $15 a hour. That’s twice the current federal minimum and two-thirds higher than the median wage for front-line fast-food workers, according to Reuters. But raising the minimum wage may not be a policy idea deserving of the passion it generates. It’s not a well-targeted, poverty-fighting weapon. Only 3% of workers age 25 and over earn the minimum wage or less. About half of all minimum wage (or less) workers are age 24 or younger, many of whom presumably live at home with their parents. The 2010 study “Will a $9.50 Federal Minimum Wage Really Help the Working Poor?” by researchers Joseph Sabia and Richard Burkhauser found that a federal minimum wage increase from $7.25 to $9.50 per hour — higher than the $9 that President Obama has proposed — would raise incomes of only 11% of workers who live in poor households. In a 2012 study, Sabia and Robert Nielsen found “no statistically significant evidence that a higher minimum wage has helped reduce financial, housing, health, or food insecurity among the poor.” Why? You have to earn a wage to benefit and 55% of poor, less-educated individuals between ages 16 and 64 don’t work. Indeed, nearly 90% of the wage earners who benefited from the 40% increase in the federal minimum wage between 2007 and 2009 were not poor. They lived in households with an income two or three times the poverty level. Would raising the minimum wage cause job losses? Lots of conflicting studies here. But a 2013 literature review by David Neumark, J.M. Ian Salas, and William Wascher concluded “that the evidence still shows that minimum wages pose a tradeoff of higher wages for some against job losses for others, and that policymakers need to bear this tradeoff in mind when making decisions about increasing the minimum wage.” And research last month from Texas A&M economists Jonathan Meer and Jeremy West find raising minimum wage levels may discourage firms over the long-term from hiring new workers. And that may be particularly true thanks to continuing — even accelerating — advances in automation. Why not support raising the minimum wage? AEI’s Kevin Hassett and Michael Strain answer that question concisely: “Because it will make it more expensive for businesses to hire young and low-skill workers at a time of crisis-level unemployment. Because it will not alleviate poverty. Because there are much better alternatives to help poor families, and because the minimum wage is a dishonest approach that hides the true cost of the policy.”

#### Poverty is a result of the structural failure of the economy to produce enough jobs—not low wages. Royce ‘09

Edward Royce, Associate Professor Sociology, Rollins College, 2009, Poverty & Power: The problem of structural inequality, p. 111

There are two aspects to the US employment crisis: the job availability problem and the job quality problem. The number of people who want to work or who could work far exceeds the number of jobs, of any quality. Timothy Bartik estimates that even in a booming economy, between 5 and 9 million additional jobs are needed to achieve real full employment. Anne Kalleberg calculates an “underemployment” rate of 11.1 percent for 2005, which means 17.1 million people unable to find a job or involuntarily employed as part-time workers. I. Randall Wray and Marc-Andrew Pigeon also provide evidence of an enduring shortfall of jobs. By their measure, approximately 14 million “potentially employable” people were left jobless even during the economic upturn of the 1990s. A “rising tide, alone—no matter how robust,” they conclude, “is unlikely to generate a sufficient number of jobs for all who might wish to work.” Philip Harvey maintains, likewise, that the rate of unemployment, which hovers between 5 and 6 percent in normal times, would have to fall to an unprecedented 2 percent to eradicate involuntary joblessness. According to his calculations, in 1999, with a level of unemployment barely over 4 percent, at least 14.5 million potential workers did not have full-time jobs. The fundamental problem, Harvey insists, is “there are not enough jobs to provide work for everyone who is actively seeking it, let alone for everyone who says they want to work or whom society believes should be working.”

### Minority Turns

#### Turn: Companies will displace their low wage workers with workers who already receive higher wages because of perceived job skills—means unemployment for those that need it. Pollin ‘05

Robert Pollin. Evaluating Living Wage Laws in the United States: Good Intentions and Economic Reality in Conflict? Economic Development Quarterly 2005 19: 3

Even if firms neither relocated nor reduced their number of employees at all in response to a living wage ordinance, a negative unintended consequence of such measures could still result through labor substitution—that is, firms replacing their existing minimum wage employees with workers having better skills and/or credentials, which could occur even in the absence of any net job loss. Because the firms covered by a living wage law would pay higher than comparable positions with uncovered firms, openings for the jobs with covered firms would likely attract workers with somewhat better credentials, on average, than those in the existing labor pool. But how would employers be able to distinguish more qualified workers in this expanded pool of job seekers? This is not an obvious question. For most of the jobs that would be covered by living wage ordinances—for example, janitors, nurses’ aids, gardeners, parking lot attendants, elevator operators, hotel maids, restaurant dishwashers, and retail cashiers—the qualities that would distinguish one worker from another would not be based primarily on formal qualifications such as years of schooling. Hiring “better” workers would instead most likely entail hiring people who work harder and are more conscientious in their duties. But employers would not be able to observe those on-the-job work habits until an employee was actually on the job. The employers are therefore likely to rely on formal qualifications, such as years of schooling or English language skills as proxy measures—however inadequate—of workers’ job-specific skills. Thus, the primary way in which labor substitution would occur would be through better-credentialed workers seeking jobs covered by a living wage ordinance who would not have applied if the wages for these jobs were still closer to the national minimum wage level. We addressed this issue in both our NewOrleans and Santa Monica studies using the same technique and analytic framework. We first examined differences in personal characteristics for two groups of workers—those who fell within the wage range close to the pre–living wage minimum and those who would fall within the living wage minimum. Thus, in the New Orleans case, we examined workers earning between $5.15 and $5.64 per hour in the first group and between $6.15 and $6.64 in the second group. To obtain a sample of low-wage workers large enough to make this exercise reliable, we had to enlarge the pool beyond workers employed in New Orleans itself to a sample encompassing workers in all of Louisiana as well as Alabama, Arkansas, Georgia, and Texas. The results of this exercise are shown in Table 4. As we see from the table, the percentage of workers without high school diplomas falls by 15.8 percentage points in moving from the $5.15 to the $6.15 wage category. Correspondingly, those with high school diplomas, some college, and college degrees each rise by between 4.5 and 6.5 percentage points. Not surprisingly, the percentage of teenagers falls by 18.8 percentage points in moving from the lower to the higher wage category. The $6.15 wage category has fewer females but, surprisingly, more nonnative English speakers. The differences in personal characteristics between the low- and high-wage categories are somewhat higher in our Santa Monica study simplybecause the livingwage increase is larger. Thus, the high-endwage band that we examined with the Santa Monica study was between $9.10 and $10.75 rather than between $6.15 and $6.64.

#### Their job loss answers don’t apply; this is about substitution not net-job loss.

#### Turn: Living wage hurts minorities- benefits people who don’t have to support a family, especially for minorities. Sowell 03

Thomas Sowell, Rose and Milton Friedman Senior Fellow, The Hoover Institution, Stanford University, “'Living wage' kills jobs,” Nov 05, 2003

Just what is a living wage? It usually means enough income to support a family of four on one paycheck. This idea has swept through various communities, churches and academic institutions.¶ Facts have never yet caught up with this idea and analysis is lagging even farther behind.¶ First of all, do most low-wage workers actually have a family of four to support on one paycheck? According to a recent study by the Cato Institute, fewer than one out of five minimum wage workers has a family to support. These are usually young people just starting out.¶ So the premise is false from the beginning. But it is still a great phrase, and that is apparently what matters, considering all the politicians, academics and church groups who are stampeding all and sundry toward the living wage concept. What the so-called living wage really amounts to is simply a local minimum wage policy requiring much higher pay rates than the federal minimum wage law. It's a new minimum wage.¶ Since there have been minimum wage laws for generations, not only in the United States, but in other countries around the world, you might think that we would want to look at what actually happens when such laws are enacted, as distinguished from what was hoped would happen.¶ Neither the advocates of this new minimum wage policy nor the media -- much less politicians -- show any interest whatsoever in facts about the consequences of minimum wage laws.¶ Most studies of minimum wage laws in countries around the world show that fewer people are employed at artificially higher wage rates. Moreover, unemployment falls disproportionately on lower skilled workers, younger and inexperienced workers, and workers from minority groups.¶ The new Cato Institute study cites data showing job losses in places where living wage laws have been imposed. This should not be the least bit surprising. Making anything more expensive almost invariably leads to fewer purchases. That includes labor.¶ While trying to solve a non-problem -- supporting families that don't exist, in most cases -- the living wage crusade creates a very real problem of low-skilled workers having trouble finding a job at all.¶ People in minimum wage jobs do not stay at the minimum wage permanently. Their pay increases as they accumulate experience and develop skills. It increases an average of 30 percent in just their first year of employment, according to the Cato Institute study. Other studies show that low-income people become average-income people in a few years and high-income people later in life.¶ All of this depends on their having a job in the first place, however. But the living wage kills jobs.¶ As imposed wage rates rise, so do job qualifications, so that less skilled or less experienced workers become "unemployable." Think about it. Every one of us would be "unemployable" if our pay rates were raised high enough.

#### Prefer my impacts- diminishing marginal utility mandates we prefer impacts to those worse off. Parfit 97

Derek Parfit, “Equality or Priority?” Ratio 10 (3):202–221 (1997)

It is worth pursuing this analogy. There is an important Utilitarian reason to aim for equality, not of well-being, but of resources. This reason appeals to diminishing marginal utility, or the claim that, if resources go to people who are better off, they will benefit these people less. Utilitarians therefore argue that, whenever we transfer resources to those who are worse off, we shall produce greater benefits, and shall thereby make the outcome better.¶ On the telic version of the Priority View, we appeal to a similar claim. We believe that, if benefits go to people who are better off, these benefits matter less. Just as resources have diminishing marginal utility, so utility has diminishing marginal moral importance¶ Given the similarity between these claims, there is a second similar argument in favour of equality: this time, not of resources, but of well-being. On this argument, whenever we transfer resources to people who are worse off, the resulting benefits will not merely be, in themselves, greater. They will also, on the moral scale, matter more. There are thus two ways in which the outcome will be better.¶ The Utilitarian argument in favour of equality of resources is, as Nagel says, a 'non-egalitarian instrumental argument'. It treats such equality as good, not in itself, but only because it increases the size of the resulting benefits. A similar claim applies to the Priority View. Here too, equality is good only because it increases the moral value of these benefits.36

### Competitiveness DA

#### The US economy is strong and competitive now—great for international investment. Needham ‘14

Vicki Needham. White House touts economic hot streak. 12/18/14. http://thehill.com/policy/finance/227625-white-house-touts-economic-hot-streak-in-2014

The Obama administration on Thursday touted their economic successes this year, highlighting strong jobs and growth. The White House is determined to define the economic recovery from one of the worst recessions in the nation's history as a major policy achievement for President Obama's legacy. Senior administration officials say the work on issues from education to housing and manufacturing to record U.S. energy production have lifted the economy from its rock-bottom doldrums to the fastest expansion in more than a decade. Top officials pointed to a broad range of milestones this year — jobs growth hit its fastest pace since 1999, more Americans have health insurance and high-school graduation rates are up along with more people earning advanced degrees. Jeff Zients, director of the National Economic Council, told reporters that there is every reason to think that the "positive trends are set to continue." "It is important to focus on how strong economic growth was this year," he said on a conference call with reporters. Zients called 2014 a “milestone year” for the economy with an average of 4.2 percent annual growth over the past two quarters, the best six-month showing in more than a decade. He also zeroed in on the nearly 11 million jobs created over 57 straight months, another record period of growth for the labor market. The expansion has put the United States back into the “No. 1 place in the world to invest," he said. Zients said that key to this year's expansion was the lack of fiscal crises on Capitol Hill. He said that every economic dip along the bumpy road to stronger growth has been associated with budget and debt battles between Congress and the White House. "Self-inflicted wounds have a real effect on the economy," he said. Although the fiscal drama has largely faded in the past year, it could reignite between the White House and a Republican-controlled Congress, Zients cautioned. To avoid the uncertainty, Zients said the White House would work with Congress on a broad range of issues including trade and tax reform "that will set up the country for more competitiveness and growth."

#### Globalization means wage increases destroy international competitiveness—investment relies on low wages. Increasing the financial burden on potential companies instead of the government means business will go elsewhere. Ofek-Ghendler ‘09

Ofek-Ghendler 09, (Hani Ofek-Ghendler, LLD, The Hebrew University, Jerusalem, “Globalization and Social Justice: The Right to Minimum Wage,” Law & Ethics of Human Rights, Volume 3, Issue 2, 2009, http://www.clb.ac.il/uploads/Ofek-Ghendler.pdf)

Indeed, minimum wage was particularly damaged by the forces of globalization, and what is commonly known as “the race to the bottom.” The growing strength of new players in the economic arena, transnational corporations, explain the increase in economic competition over capital, and weakening of the mechanisms for international cooperation within the context of the right to minimum wage. These players are not identified with a particular state since their operations are dispersed around different branches throughout the world, largely as the result of technological developments, particularly the development of transport and communications. The increasing mobility of these players requires states to compete over investors, leading to a race to the bottom of labor standards. This is not necessarily expressed in the reduction of the nominal rate of the right to minimum wage, but rather in the absence of proper, acceptable updates in the wage in order to protect its realistic value over time and by difficulties to enforce state regulations.2¶ This race to the bottom, and the constant threat of capital migrating to competing states, resulted in the transformation of the right to minimum wage that meets the interests of commercial corporations, reflecting the need of states to reduce the minimum wage as one of the bargaining chips employed in international competition. The strength of transnational corporations and the weakness of states are evident in this process.3 Cooperation among states has also become increasingly difficult, which requires a broad level of agreement among individual nations. Such agreement has not been consolidated and many countries are opposed to any increase in minimum wage in their territory due to a variety of reasons, whether because of the significant financial burden this would impose on the government (as an employer) or because of the fear of capital fleeing to a competitor state. The lack of such agreement is one of the reasons for the neglect of the protection of the right to minimum wage in international law, as I demonstrate below.

#### Competitiveness prevents great power nuclear war. Khalilzad ‘11

Khalilzad, ’11 [Zalmay Khalilzad was the United States ambassador to Afghanistan, Iraq, and the United Nations during the presidency of George W. Bush and the director of policy planning at the Defense Department from 1990 to 1992, “ The Economy and National Security”, 2-8-11, <http://www.nationalreview.com/articles/print/259024>]

We face this domestic challenge while other major powers are experiencing rapid economic growth. Even though countries such as China, India, and Brazil have profound political, social, demographic, and economic problems, their economies are growing faster than ours, and this could alter the global distribution of power. These trends could in the long term produce a multi-polar world. If U.S. policymakers fail to act and other powers continue to grow, it is not a question of whether but when a new international order will emerge. The closing of the gap between the United States and its rivals could intensify geopolitical competition among major powers, increase incentives for local powers to play major powers against one another, and undercut our will to preclude or respond to international crises because of the higher risk of escalation. The stakes are high. In modern history, the longest period of peace among the great powers has been the era of U.S. leadership. By contrast**,** multi-polar systems have been unstable, with their competitive dynamics resulting in frequent crises and major wars among the great powers. Failures of multi-polar international systems produced both world wars. American retrenchment could have devastating consequences. Without an American security blanket, regional powers could rearm in an attempt to balance against emerging threats. Under this scenario, there would be a heightened possibility of arms races, miscalculation, or other crises spiraling into all-out conflict. Alternatively, in seeking to accommodate the stronger powers, weaker powers may shift their geopolitical posture away from the United States. Either way, hostile states would be emboldened to make aggressive moves in their regions. As rival powers rise, Asia in particular is likely to emerge as a zone of great-power competition. Beijing’s economic rise has enabled a dramatic military buildup focused on acquisitions of naval, cruise, and ballistic missiles, long-range stealth aircraft, and anti-satellite capabilities. China’s strategic modernization is aimed, ultimately, at denying the United States access to the seas around China. Even as cooperative economic ties in the region have grown, China’s expansive territorial claims — and provocative statements and actions following crises in Korea and incidents at sea — have roiled its relations with South Korea, Japan, India, and Southeast Asian states. Still, the United States is the most significant barrier facing Chinese hegemony and aggression. Given the risks, the United States must focus on restoring its economic and fiscal condition while checking and managing the rise of potential adversarial regional powers such as China. While we face significant challenges, the U.S. economy still accounts for over 20 percent of the world’s GDP. American institutions — particularly those providing enforceable rule of law — set it apart from all the rising powers. Social cohesion underwrites political stability. U.S. demographic trends are healthier than those of any other developed country. A culture of innovation, excellent institutions of higher education, and a vital sector of small and medium-sized enterprises propel the U.S. economy in ways difficult to quantify. Historically, Americans have responded pragmatically, and sometimes through trial and error, to work our way through the kind of crisis that we face today.

### AT – Incentivizes Slave Wages

#### Maintaining current minimum wage solves. Jaywork ‘14

Casey Jaywork. Wage subsidy outsmarts a $15 Minimum. http://www.capitolhilltimes.com/2014/01/wage-subsidy-outsmarts-15-minimum/

One possible objection to a wage subsidy is that it will allow employers to lower their own wages and let the government pick up the slack. This can be avoided by keeping a low minimum wage in place (e.g. the current one). Setting that minimum wage creates a price floor below which employers cannot go, and competition between employers for higher-skilled workers will push up wages for higher-skilled jobs. In this way, the feedback-loop of the market will still react to consumer preferences (like raising the wages of bilingual workers when there’s greater demand for them) while keeping all wages high enough to live on.

### AT – Substitution/Displacement Effect

#### No substitution effect- wage subsidies encourage training of workers, which solves low-skill problem- workers become complements, not substitutes. Even if some workers get displaced, limiting percentage of subsidized workers solves. Moczall 13

Andreas Moczall (IAB), Andreas Moczall studied social economics at the Friedrich-Alexander-University Erlangen-Nuremberg, School of Business and Economics, and completed his studies in 2008 (Diplom-Sozialwirt). He has been a researcher at IAB since October 2008. From 2010 to 2013 he also was a scholarship holder in IAB’s Graduate Programme, “Subsidies for substitutes? New evidence on deadweight loss and substitution effects of a wage subsidy for hard-to-place job-seekers,” IAB Discussion Paper, Articles on labour market issues, 5/2013

This paper estimates substitution effects of the German active labour market programme “JobPerspektive”', a wage subsidy for hard-to-place welfare recipients.

Positive effects of subsidization on regular employment are entirely within the scope of the theory presented in Section 3. JobPerspektive was explicitly designed to allow subsidized establishments to do business in fields where doing business was not profitable (or in the case of the public sector, cost-effective). To the extent that the low-productivity workers who qualify for the subsidy can be expected to require a considerable amount of training and supervision, they can be considered complements, rather than substitutes, to regular workers. Moreover, to the extent that subsidization lowers the cost of producing the goods or services that the subsidized establishment has always operated in, the resulting scale effect will further serve to increase regular employment; whether subsidization actually does produce a change in output prices can not be identified in the data set in use that is based on Social Security administration data. Such scale effects could give the subsidized establishment a competitive advantage over competing non-subsidized establishments, possibly causing them to reduce more or build up less employment than they would have had in the hypothetical situation in which the subsidy had not been granted to the subsidized establishment. This is generally referred to as a displacement effect, and is not only undesirable from a policy perspective, but would bias the effect estimates in these establishment-level analyses, constituting a violation of the Stable Unit Treatment Value assumption. As mentioned in Section 5, this is however rather unlikely given the comparatively small number of subsidized establishments, the rather short observation period and the findings in ISG/IAB/RWI (2011). This result is in line with the more recent studies of Hohendanner (2011), Rotger/ Arendt (2010) and Kangasharju (2007), but contrary to most of the older research summarized in Section 4. This need not necessarily be due to different econometric strategies being used in the analyses but possibly also the result of more recent programmes simply being run more efficiently following the earlier research's sometimes alarming findings. That the positive effects of JobPerspektive subsidization on regular employment are small to non-existent in East Germany can be explained by the fact that subsidized employment, in particular Job Creation Schemes and work opportunities, have always played a larger role there due do the dearth of regular employment opportunities (Lechner/Wunsch 2009; Jacobi/Kluve 2007). Starting out from a higher initial level of subsidized employment, the introduction of this new subsidy provided little change from the previous regime. Comparing the results for establishments with a high number of Job-Perspektivesubsidized workers and those with a low number indicated that positive effects only exist for low-intensity treatment establishments. Employing a high number (relative to the total number of workers) of JobPerspektive participants may indicate that those subsidized workers might be productive enough after all to substitute regular workers, with the scale effect preventing the overall effect from becoming significantly negative, whereas employing a low number of JobPerspektive participants indicates low productivity requiring a lot of supervision and assistance. The policy conclusion from this finding would be to limit the number of subsidized workers in each subsidized establishment to a certain percentage (about five to seven percent) of the total workforce. Very apparent is the substitution of Job Creation Scheme and wage-paying work opportunity participants through the JobPerspektive subsidy in West Germany, mostly in establishments with a high number of JobPerspektive subsidized workers. One explanation for this is certainly the substitutability of these participants with JobPerspektive participants. That substitution of Job Creation Schemes is not observed in greater magnitude even though job creation schemes for welfare recipients were phased out at the end of 2008 is because that particular policy change applied to treatment group and matched control group establishments alike, so if JobPerspektive prompted an employer to replace Job Creation Scheme funding with JobPerspektive funding instead of wage-paying work opportunities funding, it will show up as a substitution of work opportunities in the results, not of Job Creation Schemes. The most surprising result however is that subsidization with the JobPerspektive leads to a modest increase in employment subsidized with hiring subsidies (Eingliederungszuschüsse, EGZ). One explanation for this additional employment with hiring subsidies might be the low popularity of the JobPerspektive subsidy among private sector employers: when the bill to create the subsidy was passed, it was estimated to have 100,000 participants at the end of the year 2009. Difficulty in finding employers willing to hire such hard-to-place workers meant that only about 41,000 people could be placed with the subsidy by December 2009 (ISG/IAB/RWI 2011). In order to place JobPerspektive participants, job centres might have to offer potential employers the option of hiring less hard-to-place workers from the unemployment pool with hiring subsidies. This can be seen as evidence for the oftenmentioned tradeoff that designers of employment subsidies will face: either make a subsidy rather widely available while suffering high magnitudes of deadweight loss and substitution, or restrict it to hard-to-place job-seekers who would then, despite the subsidy, be difficult to place (Martin/Grubb 2011: 32).

#### Empirics prove positive effect on employment that increases over time- wide sample size of panel data and checked for heterogeneity. Rotger and Arendt 10

Gabriel Pons Rotger, Corresponding author, Senior Researcher, PhD, AKF, Danish Institute of Governmental Research, and Jacob Nielsen Arendt, Associate Professor, PhD, Institute of Public Health, Research Unit for Health Economics, “The Effect of a Wage Subsidy on Subsidised Firm’s Ordinary Employment,” AKF, Danish Institute of Governmental Research, 2010

This paper estimates the causal effect of a new wage subsidy on subsidised firms’ ordinary employment along the subsidised period for 2,600 Danish firms which hired a subsidised employee in the spring of 2006. The paper exploits the availability of panel data on the outcome variable, firm’s monthly ordinary employment, to use an annually differenced outcome variable, and conditioning on the last thirteen monthly lags of the firm’s monthly ordinary employment in the spirit of Card & Sullivan (1988). The paper applies matching on a ‘matched sample’ method of Rubin (2006) in order to minimise the unbalance between treatment and control group. We find that hiring a subsidised employee has a significant positive average employment effect on the subsidised firm already 1 month after the beginning of the subsidised contract. As time passes, the positive effect on the firm’s ordinary employment increases suggesting that on average subsidised employers tend to hire the subsidised employee on ordinary terms or use subsidy to financing the hiring of other individuals on ordinary conditions. We find at the same time evidence on heterogeneity of the responses. Most important, seasonal employers seem to replace seasonal ordinary employment by subsidized one, and this given the lack of effective preventing mechanism at the scheme, suggest to reinforce the control of seasonal firms regarding their use of subsidized employees. Another relevant finding is that employers who use in higher extent subsidized and other forms of non-ordinary employment and who given the design of the subsidy scheme have incentives to permanently use wage subsidies do not present significative differences in terms of treatment effect with respect to the average effect on their ordinary employees. This finding reinforces the average evidence on the wage subsidy has been effective and efficient in terms of employment generation in Denmark in the period under study.

## \*\*\* Infrastructure Stimulus Good

### Infrastructure Stimulus Key To Economic Growth

#### Infrastructure stimulus is key to economic growth—multiple reasons.

New America Foundation 10 — New America Foundation—“a nonprofit, nonpartisan public policy institute that invests in new thinkers and new ideas to address the next generation of challenges facing the United States,” 2010 (“The Case for an Infrastructure-Led Jobs and Growth Strategy,” February 23rd, Available Online at http://www.newamerica.net/publications/policy/the\_case\_for\_an\_infrastructure\_led\_jobs\_and\_growth\_strategy, Accessed 06-09-2012)

As the Senate takes up a greatly scaled down $15 billion jobs bill stripped of all infrastructure spending, the nation should consider the compelling case for public infrastructure investment offered by Governors Arnold Schwarzenegger (R-CA) and Ed Rendell (D-PA). Appearing on ABC’s "This Week" on Sunday, the bipartisan Co-Chairs of Building America's Future explained why rebuilding America’s infrastructure is the key to both job creation in the short and medium term and our prosperity in the longer term.

Rather than go from one negligible jobs bill to the next, the administration and Congress should, as the governors suggest, map out a multi-year plan of infrastructure investment and make it the centerpiece of an ongoing economic recovery program.

Here is why:

With American consumers constrained by high household debt levels and with businesses needing to work off overcapacity in many sectors, we need a new, big source of economic growth that can replace personal consumption as the main driver of private investment and job creation. The most promising new source of growth in the near to medium term is America’s pent-up demand for public infrastructure improvements in everything from roads and bridges to broadband and air traffic control systems to a new energy grid. We need not only to repair large parts of our existing basic infrastructure but also to put in place the 21st-century infrastructure for a more energy-efficient and technologically advanced society. This project, entailing billions of dollars of new government spending over the next five to ten years, would generate comparable levels of private investment and provide millions of new jobs for American workers.

More specifically, public infrastructure investment would have the following favorable benefits for the economy:

Job Creation. Public infrastructure investment would directly create jobs, particularly high-quality jobs, and thus would help counter the 8.4 million jobs lost since the Great Recession began. One study estimates that each billion dollars of spending on infrastructure can generate up to 17,000 jobs directly and up to 23,000 jobs by means of induced indirect investment. If all public infrastructure investment created jobs at this rate, then $300 billion in new infrastructure spending would create more than five million jobs directly and millions more indirectly, helping to return the economy to something approaching full employment.

A Healthy Multiplier Effect. Public infrastructure investment not only creates jobs but generates a healthy multiplier effect throughout the economy by creating demand for materials and services. The U.S. Department of Transportation estimates that, for every $1 billion invested in federal highways, more than $6.2 billion in economic activity is generated. Mark Zandi, chief economist at Moody’s Economy.com, offers a more conservative but still impressive estimate of the multiplier effect of infrastructure spending, calculating that every dollar of increased infrastructure spending would generate a $1.59 increase in GDP. Thus, by Zandi’s conservative estimates, $300 billion in infrastructure spending would raise GDP by nearly $480 billion (close to 4 percent).

A More Productive Economy. Public infrastructure investment would not only help stimulate the economy in the short term but help make it more productive over the long term, allowing us to grow our way out of the increased debt burdens resulting from the bursting of the credit bubble. As numerous studies show, public infrastructure increases productivity growth, makes private investment more efficient and competitive, and lays the foundation for future growth industries. In fact, many of the new growth sectors of the economy in agriculture, energy, and clean technology require major infrastructure improvements or new public infrastructure.

Needed Investments that Will Pay for Themselves. New infrastructure investment can easily be financed at historically low interest rates through a number of mechanisms, including the expansion of Build America Bonds and Recovery Zone bonds (tax-credit bonds that are subsidized by favorable federal tax treatment) and the establishment of a National Infrastructure Bank. Public infrastructure investment will pay for itself over time as a result of increased productivity and stronger economic growth. Several decades of underinvestment in public infrastructure has created a backlog of public infrastructure needs that is undermining our economy’s efficiency and costing us billions in lost income and economic growth. By making these investments now, we would eliminate costly bottlenecks and make the economy more efficient, thereby allowing us to recoup the cost of the investment through stronger growth and higher tax revenues.

#### Infrastructure investment stimulates the economy—empirical evidence of both short-term and long-term growth.

Boushey 11 — Heather Boushey, Senior Economist at the Center for American Progress, previously held economist positions with the Joint Economic Committee of the U.S. Congress, the Center for Economic and Policy Research, and the Economic Policy Institute, holds a Ph.D. in economics from the New School for Social Research, 2011 (“Now Is the Time to Fix Our Broken Infrastructure,” Center for American Progress, September 22nd, Available Online at http://www.americanprogress.org/issues/2011/09/aja\_infrastructure.html, Accessed 06-09-2012)

Investing in infrastructure creates jobs and yields lasting benefits for the economy, including increasing growth in the long run. Upgrading roads, bridges, and other basic infrastructure creates jobs now by putting people to work earning good, middle-class incomes, which expands the consumer base for businesses. These kinds of investments also pave the way for long-term economic growth by lowering the cost of doing business and making U.S. companies more competitive.

There is ample empirical evidence that investment in infrastructure creates jobs. In particular, investments made over the past couple of years have saved or created millions of U.S. jobs. Increased investments in infrastructure by the Department of Transportation and other agencies due to the American Recovery and Reinvestment Act saved or created 1.1 million jobs in the construction industry and 400,000 jobs in manufacturing by March 2011, according to San Francisco Federal Reserve Bank economist Daniel Wilson.[1] Although infrastructure spending began with government dollars, these investments created jobs throughout the economy, mostly in the private sector.[2]

Infrastructure projects have created jobs in communities nationwide. Recovery funds improved drinking and wastewater systems, fixed bridges and roads, and rehabilitated airports and shipyards across the nation. Some examples of high-impact infrastructure projects that have proceeded as a result of Recovery Act funding include:

\* An expansion of a kilometer-long tunnel in Oakland, California, that connects two busy communities through a mountain.[3]

\* An expansion and rehabilitation of the I-76/Vare Avenue Bridge in Philadelphia and 141 other bridge upgrades that supported nearly 4,000 jobs in Pennsylvania in July 2011.[4]

\* The construction of new railway lines to serve the city of Pharr, Texas, as well as other infrastructure projects in that state that have saved or created more than 149,000 jobs through the end of 2010.[5]

Infrastructure investments are an especially cost-effective way to boost job creation with scare government funds. Economists James Feyrer and Bruce Sacerdote found for example that at the peak of the Recovery Act’s effect, 12.3 jobs were created for every $100,000 spent by the Department of Transportation and the Department of Energy—much of which was for infrastructure.[6] These two agencies spent $24.7 billion in Recovery dollars through September 2010, 82 percent of which was transportation spending. This implies a total of more than 3 million jobs created or saved.

#### Now is the key time for infrastructure investment—it is vital to long-term growth.

Boushey 11 — Heather Boushey, Senior Economist at the Center for American Progress, previously held economist positions with the Joint Economic Committee of the U.S. Congress, the Center for Economic and Policy Research, and the Economic Policy Institute, holds a Ph.D. in economics from the New School for Social Research, 2011 (“Now Is the Time to Fix Our Broken Infrastructure,” Center for American Progress, September 22nd, Available Online at http://www.americanprogress.org/issues/2011/09/aja\_infrastructure.html, Accessed 06-09-2012)

Infrastructure is a good investment now because it will get people to work, and at this point, given the lingering high unemployment, we shouldn’t be too concerned if projects take a bit of time to get up and running. As Mark Zandi said in August 2011:

Infrastructure development has a large bang for the buck, particularly now when there are so many unemployed construction workers. It also has the potential for helping more remote hard-pressed regional economies and has long-lasting economic benefits. It is difficult to get such projects up and running quickly—“shovel ready” is in most cases a misnomer—but given that unemployment is sure to be a problem for years to come, this does not seem in the current context as significant a drawback.[16]

We can create jobs. With nearly 14 million Americans unemployed, now is the time to make long-lasting investments in infrastructure that will not only get people to work today but pave the way for long-term economic growth.

Repairing potholes, upgrading an elementary school’s aging furnace, and replacing old water mains are all infrastructure investments. These are repairs that must be done and are often cheaper to do as maintenance than waiting to repair a totally failed system. Now is the right time for America to invest in maintaining and upgrading our infrastructure. We have millions of American workers who want to get off the unemployment queue and into a job and borrowing costs at decade lows, making it extraordinarily cost effective to make big investments today.

### Infrastructure Best Stimulus / Highest Multiplier Effect

#### Infrastructure investment is uniquely effective at stimulating the economy—studies prove.

Boushey 11 — Heather Boushey, Senior Economist at the Center for American Progress, previously held economist positions with the Joint Economic Committee of the U.S. Congress, the Center for Economic and Policy Research, and the Economic Policy Institute, holds a Ph.D. in economics from the New School for Social Research, 2011 (“Now Is the Time to Fix Our Broken Infrastructure,” Center for American Progress, September 22nd, Available Online at http://www.americanprogress.org/issues/2011/09/aja\_infrastructure.html, Accessed 06-09-2012)

The value of infrastructure spending

Analysis of all fiscal stimulus policies shows a higher “multiplier” from infrastructure spending than other kinds of government spending, such as tax cuts, meaning that infrastructure dollars flow through the economy and create more jobs than other kinds of spending. Economist Mark Zandi found, for example, that every dollar of government spending boosts the economy by $1.44, whereas every dollar spent on a refundable lump-sum tax rebate adds $1.22 to the economy.[7]

In a separate study conducted before the Great Recession, economists James Heintz and Robert Pollin of the University of Massachusetts, Amherst, found that infrastructure investment spending in general creates about 18,000 total jobs for every $1 billion in new investment spending. This number include jobs directly created by hiring for the specific project, jobs indirectly created by supplier firms, and jobs induced when workers go out and spend their paychecks and boost their local economy.[8]

#### Infrastructure investment is uniquely effective at stimulating the economy—*highest multiplier effect*.

Han 12 — Xue Han, Luxembourg Garden Visiting Scholar at Global Infrastructure Asset Management, LLC, holds a B.A. in Mathematics and Economics from Beloit College, 2012 (“Why Invest In Infrastructure? Necessities and Benefits of Infrastructure Investments,” Report for Global Infrastructure Asset Management, LLC, February, Available Online at http://www.globalinfrastructurellc.com/pdfs/Why\_Invest\_in\_Infrastructure-Necessities\_and\_Benefits\_of\_Infrastructure\_Investments.pdf, Accessed 06-09-2012, p. 1)

With the economy still in the prolonged slump after the financial crisis in 2008, the stimulating effects of infrastructure investments on economic growth becomes even more important for speeding up the recovery. Infrastructure investments‘ contribution to economic growth come from two aspects: improvement of productivity and relatively larger multiplier effects. Firstly, both fundamental theories and statistical evidences tell us that investments in public infrastructure improve private-sector productivity, leading to a “crowding-in” instead of “crowding-out” of private investments. More specifically, as suggested by Heintz, Pollin and Peltier, a sustained one-percentage point increase in the growth rate of core public economic infrastructure leads to an increase in the growth rate of private sector GDP of 0.6 percentage points. Secondly, due to its relatively larger multiplier effects than that of other types of spending, infrastructure investment still has a strong stimulus on economic growth even without consideration of its productivity improving effects, which serves as the more ultimate reason. Using the reliable estimates on employment generated from a Input-Output model in How infrastructure investment support the U.S. economy (Heintz, Pollin and Peltier, 2009) and a solid assumption on the relationship between GDP increase and employment effects made by Romer and Bernstein, the multiplier effect featured by investment specifically in infrastructure is estimated as 2.8, a lot bigger compared to the general fiscal multiplier of all types of government spending at 1.88, as estimated in my previous research Deficit Reduction and Multiplier Effects.

#### Infrastructure investment has the highest multiplier effect—studies prove.

Han 12 — Xue Han, Luxembourg Garden Visiting Scholar at Global Infrastructure Asset Management, LLC, holds a B.A. in Mathematics and Economics from Beloit College, 2012 (“Why Invest In Infrastructure? Necessities and Benefits of Infrastructure Investments,” Report for Global Infrastructure Asset Management, LLC, February, Available Online at http://www.globalinfrastructurellc.com/pdfs/Why\_Invest\_in\_Infrastructure-Necessities\_and\_Benefits\_of\_Infrastructure\_Investments.pdf, Accessed 06-09-2012, p. 18-19)

Besides its improving effects on productive capacity as the major reason for the infrastructure investment‘s contribution to the economic growth, a second reason is its relatively larger multiplier effects on the overall economy compared to other types of investment of the same amount. The multiplier effect refers to the dollar amount impact on the economy, measured as GDP, that each dollar of spending could generate; since the effect of each dollar of spending is usually beyond itself – i.e. larger than 1 – due to its stimulating effects on other components of the GDP, such as consumption, investment and net exports, it is often referred to as the multiplier effects.

There is more than one kind of multiplier effect based on different investments, but in most studies and ours as well, we are specifically interested in and refer to the fiscal multiplier, that is the dollar amount impact on the economy for each dollar of government spending. As discussed in details in a previous research of mine on the subject of the Automatic Budget Enforcement Procedures, the size of the multiplier under current circumstances is estimated to be 1.88, with the interest rate at the zero lower bound taken into account in illustrations of a series of Keynesian models.

With regards to the fact that multiplier specifically for infrastructure investments is larger than other types of investments and thus the general average fiscal multiplier, the theoretical reasons behind are quite easy to understand. The two major reasons infrastructure spending are: (1) less leakage to imports and (2) stronger stimulus in consumption compared to other types of spending such as tax cuts, where a higher proportion of the additional money is saved or spent on imported goods and services.

In order to estimate the size of multiplier specifically for infrastructure investments, we utilize the employment effects estimated using the Input-Output Model in the research How Infrastructure Investments Support the U.S. Economy: Employment, Productivity and Growth (Heintz, Pollin and Peltier, 2009). According to their research, for each $1 billion infrastructure investment made, an average of 18,681 jobs will be created in core economic infrastructure through direct, indirect and induced effects. As of December 2010, the total employment in the U.S. was 130.26 million, which translates an increase of 18,681 jobs into a percentage increase of 0.0143%.

From there, based on the solid basic assumption on the relationship between employment and GDP increases that was used by Romer and Bernstein in their paper The Job Impact of the American Recovery and Reinvestment Act (Romer and Bernstein, 2009), we can trace back to a reliable estimate of GDP increase in dollar amount for each $1 billion investments in infrastructure, and thus an infrastructure multiplier. The assumption made by Romer and Bernstein and also agreed by Heintz, Pollin and Peltier is that employment will rise by 0.75% for every 1% increase in GDP. Therefore, the 0.0143% increase in employment generated per $1 billion infrastructure investment can be translated as a 0.0191% increase in GDP. With a GDP of $14,660.2 billion in 2010, such percentage increase is equivalent to a dollar amount increase of [end page 18] $2.8 billion in GDP. That said, the conclusion is that, for each $1 billion spending on infrastructure, an increase of approximately $2.8 billion in GDP can be observed, meaning that the multiplier for infrastructure investments specifically is about 2.8, much larger than the average size of 1.88 for all types of investments as estimated in previous study.

This well established larger multiplier effects of infrastructure investments become particularly important due to the slow economic recovery we have faced since the crisis. Even without the more influential and fundamental effects of infrastructure investments on productivity improvement, the larger multiplier such investments have is a strong enough reason to call for more spending, or at least less cuts, on infrastructure projects.

### A2: Stimulus Causes “Crowd-Out”

#### No “crowd out”—doesn’t apply to the current economy.

Han 12 — Xue Han, Luxembourg Garden Visiting Scholar at Global Infrastructure Asset Management, LLC, holds a B.A. in Mathematics and Economics from Beloit College, 2012 (“Why Invest In Infrastructure? Necessities and Benefits of Infrastructure Investments,” Report for Global Infrastructure Asset Management, LLC, February, Available Online at http://www.globalinfrastructurellc.com/pdfs/Why\_Invest\_in\_Infrastructure-Necessities\_and\_Benefits\_of\_Infrastructure\_Investments.pdf, Accessed 06-09-2012, p. 15-16)

The one most important reason for the tremendous benefits that infrastructure investment would bring along is its effects on expanding the economy‘s long-term productive capacity. In order to see this fact, let‘s start with probably the single most common and influential argument against increasing the level of public investment, that is it will “crowd out” private investment – i.e. an increase in public infrastructure spending will be associated with an equivalent decline in private investment. To test the validity of this argument, let‘s first understand the two kinds of resources required by investments in infrastructure: real economic resources – materials, equipment and people‘s labor, and financial resources – money coming either from tax revenues or government borrowing. The “crowding out” argument assumes that when the public sector consumes more of [end page 15] these real and financial resources, it necessarily diminishes the amount available to the private sector. Therefore, an increase in public capital expenditures results in less private sector production. In other words, the “economic pie” is fixed. When the government takes a bigger slice, it leaves less for the private economy.

However, even at the level of simple logic, the crowding out argument only holds under a specific set of narrow economic circumstances. These circumstances would be when: 1) all the economy‘s real resources are being fully utilized, i.e. workers are fully employed, and the existing productive apparatus is being run full-tilt; 2) the economy‘s financial resources are similarly already being fully used up in financing productive investment projects; and 3) new public investment spending makes no contribution toward expanding the economy‘s productive capacity—i.e. it is not succeeding in its purpose of increasing the overall size of the economic pie.

In the current economic crisis, unemployment is rising toward its highest level in a generation and financial institutions are providing almost no loans for private investment, preferring instead to hoard huge cash reserves and to purchase U.S. Treasury bonds, the single safest asset available on financial markets. Under these circumstances, there is no possibility of public investment projects bidding resources away from the private sector. Rather, higher rates of public infrastructure will increase the total number of people who can find employment, and it will put to good use the financial resources flowing into the U.S. Treasury.

But these are of course extraordinary circumstances. It is also important to recognize that crowding out need not occur even when the economy is booming and unemployment is low. This is because public infrastructure investments will expand the economy‘s long-term productive capacity, with benefits flowing primarily to the private sector. Because public infrastructure investment actually increases the overall size of the economic pie, both the public and the private sectors can expand together through a complimentary, mutually-supportive growth path.

More specifically, public spending provides goods and services essential for private production, including roads, bridges, energy, water, aviation, and water transport. Infrastructure improvements can increase labor productivity—e.g. more efficient transportation systems to and from work reduce wasted time. Better infrastructure can also reduce fossil fuel consumption specifically, and overall energy consumption more generally. This reduces greenhouse gas emissions, and thus the environmental barriers to economic growth.

### A2: Critiques of Munnell/Aschauer Studies

#### Recent statistics answer their critiques of Munnell and Aschauer.

Han 12 — Xue Han, Luxembourg Garden Visiting Scholar at Global Infrastructure Asset Management, LLC, holds a B.A. in Mathematics and Economics from Beloit College, 2012 (“Why Invest In Infrastructure? Necessities and Benefits of Infrastructure Investments,” Report for Global Infrastructure Asset Management, LLC, February, Available Online at http://www.globalinfrastructurellc.com/pdfs/Why\_Invest\_in\_Infrastructure-Necessities\_and\_Benefits\_of\_Infrastructure\_Investments.pdf, Accessed 06-09-2012, p. 16-17)

It is not difficult to offer these arguments as to the benefits of public infrastructure investment in broad generalities, but more difficult to demonstrate their validity through systematic statistical analyses, while it is crucial to be able to put these arguments to more formal tests. Heintz, Pollin and Peltier (2009) therefore took a formal approach in their paper, by exploring a formal statistical model to see whether anticipated positive gains from public investment spending can be observed.

Before introducing the recent findings by Heintz, Pollin and Peltier, we first look at the important research conducted at earlier stages that first came to such conclusions. In the 1980s and early 1990s, economists Alicia Munnell and David Aschauer, working separately, both suggested that [end page 16] public investment in the United States economy contributes to better performance of the private economy in terms of higher productivity and employment expansion (Aschauer, 1989a, 1989b; Munnell 1990a, 1990b). That is, public investment actually raises the return on private investment – crowding in rather than crowding out private investment. Both Munnell and Aschauer suggested that the sharp decline in the growth of public investment, which we documented earlier, contributed to the declining trend in productivity growth in the 1970s and 1980s. A growing infrastructure deficit would drag down the productivity and competitiveness of the U.S. economy.

Numerous critiques of this earlier work were advanced, focusing on technical statistical matters. They argued that earlier work of Auschauer and Munnell did not fully address important properties of the data they used to generate their results, raising the possibility that the relationship they found between public investment and private economic performance was spurious; once these problems are addressed, the statistical findings they had derived end up falling apart.

For the study by Heintz, Pollin and Peltier, they re-estimated these relationships using data up to 2009 and addressed the statistical issues associated with earlier research. The impact of public infrastructure investment on the productivity of the private economy was evaluated in their study. For the purpose of particular exercise, Heintz, Pollin and Peltier narrowed the focus of the analysis, with the specific concern being the impact of public investment on the private sector. Heintz, Pollin and Peltier therefore excluded the impact of the private components of infrastructure investments on overall economic performance from their analysis. Sharpening their focus still further, only those categories of public infrastructure which would directly impact the production activities of the private sector are considered. That is, categories of social infrastructure – such as educational buildings, hospitals, and conservation areas were also excluded from their statistical exercise. In terms of the four categories of infrastructure investment presented in the previous section, this statistical analysis by Heintz, Pollin and Peltier excluded investment in public schools but included all other areas of public investment. And we refer to this narrower set of public investments – public investments in transportation, water and energy as ̳core public economic infrastructure‘.

Heintz, Pollin and Peltier found in their study that sustained increases in core public economic infrastructure in the United States enhance the growth of private sector GDP by a substantial amount. The statistic results suggested that a sustained one-percentage point increase in the growth rate of core public economic infrastructure leads to an increase in the growth rate of private sector GDP of 0.6 percentage points.

## \*\*\* Deficit Spending Good

### Deficits Key To Economic Growth

#### Anti-deficit hysteria is wrong—large deficits are key to growth.

Krugman 10 — Paul Krugman, Columnist for the *New York Times*, Professor of Economics and International Affairs at Princeton University, and Recipient of the 2008 Nobel Prize in Economics, 2010 (“Fiscal Scare Tactics,” *The New York Times*, February 5th, Available Online at http://www.nytimes.com/2010/02/05/opinion/ 05krugman.html?pagewanted=print, Accessed 02-10-2010)

These days it’s hard to pick up a newspaper or turn on a news program without encountering stern warnings about the federal budget deficit. The deficit threatens economic recovery, we’re told; it puts American economic stability at risk; it will undermine our influence in the world. These claims generally aren’t stated as opinions, as views held by some analysts but disputed by others. Instead, they’re reported as if they were facts, plain and simple.

Yet they aren’t facts. Many economists take a much calmer view of budget deficits than anything you’ll see on TV. Nor do investors seem unduly concerned: U.S. government bonds continue to find ready buyers, even at historically low interest rates. The long-run budget outlook is problematic, but short-term deficits aren’t — and even the long-term outlook is much less frightening than the public is being led to believe.

So why the sudden ubiquity of deficit scare stories? It isn’t being driven by any actual news. It has been obvious for at least a year that the U.S. government would face an extended period of large deficits, and projections of those deficits haven’t changed much since last summer. Yet the drumbeat of dire fiscal warnings has grown vastly louder.

To me — and I’m not alone in this — the sudden outbreak of deficit hysteria brings back memories of the groupthink that took hold during the run-up to the Iraq war. Now, as then, dubious allegations, not backed by hard evidence, are being reported as if they have been established beyond a shadow of a doubt. Now, as then, much of the political and media establishments have bought into the notion that we must take drastic action quickly, even though there hasn’t been any new information to justify this sudden urgency. Now, as then, those who challenge the prevailing narrative, no matter how strong their case and no matter how solid their background, are being marginalized.

And fear-mongering on the deficit may end up doing as much harm as the fear-mongering on weapons of mass destruction.

Let’s talk for a moment about budget reality. Contrary to what you often hear, the large deficit the federal government is running right now isn’t the result of runaway spending growth. Instead, well more than half of the deficit was caused by the ongoing economic crisis, which has led to a plunge in tax receipts, required federal bailouts of financial institutions, and been met — appropriately — with temporary measures to stimulate growth and support employment.

The point is that running big deficits in the face of the worst economic slump since the 1930s is actually the right thing to do. If anything, deficits should be bigger than they are because the government should be doing more than it is to create jobs.

True, there is a longer-term budget problem. Even a full economic recovery wouldn’t balance the budget, and it probably wouldn’t even reduce the deficit to a permanently sustainable level. So once the economic crisis is past, the U.S. government will have to increase its revenue and control its costs. And in the long run there’s no way to make the budget math work unless something is done about health care costs.

But there’s no reason to panic about budget prospects for the next few years, or even for the next decade. Consider, for example, what the latest budget proposal from the Obama administration says about interest payments on federal debt; according to the projections, a decade from now they’ll have risen to 3.5 percent of G.D.P. How scary is that? It’s about the same as interest costs under the first President Bush.

Why, then, all the hysteria? The answer is politics.

The main difference between last summer, when we were mostly (and appropriately) taking deficits in stride, and the current sense of panic is that deficit fear-mongering has become a key part of Republican political strategy, doing double duty: it damages President Obama’s image even as it cripples his policy agenda. And if the hypocrisy is breathtaking — politicians who voted for budget-busting tax cuts posing as apostles of fiscal rectitude, politicians demonizing attempts to rein in Medicare costs one day (death panels!), then denouncing excessive government spending the next — well, what else is new?

The trouble, however, is that it’s apparently hard for many people to tell the difference between cynical posturing and serious economic argument. And that is having tragic consequences.

For the fact is that thanks to deficit hysteria, Washington now has its priorities all wrong: all the talk is about how to shave a few billion dollars off government spending, while there’s hardly any willingness to tackle mass unemployment. Policy is headed in the wrong direction — and millions of Americans will pay the price.

#### Their authors are wrong about long-term growth projections—reverse causation proves that deficits are key to growth.

Wray 10 — L. Randall Wray, Professor of Economics at the University of Missouri-Kansas City, Research Director with the Center for Full Employment and Price Stability, and Senior Research Scholar at The Levy Economics Institute, with Yeva Nersisyan, Ph.D. Candidate in Economics and Math and Statistics at the University of Missouri–Kansas City, 2010 (“Neoliberal Deficit Hysteria Strikes Again,” *New Economic Perspectives*, March 22nd, Available Online at http://neweconomicperspectives.blogspot.com/2010/03/neoliberal-deficit-hysteria-strikes.html, Accessed 03-25-2010)

The claim made by Moody’s that growth will not reduce debt ratios does not square with the facts of historical experience and must rely on the twin assumptions that growth in the future will be sluggish and that government spending will grow relative to GDP. However, such an outcome is inconsistent: if government spending grows fast it raises GDP growth and hence tax revenues, reducing the budget deficit. This is precisely what has happened in the US over the entire postwar period. It is only when government spending lags behind GDP growth by a considerable amount that it slows growth of GDP and tax revenues, causing the budget deficit to grow. What Rogoff and Reinhart do not sufficiently account for is the “reverse causation”: slow growth generates budget deficits. This goes a long way toward explaining the correlation they find between slow growth and deficits: as economists teach, correlation does not prove causation!

Actually, there are always two ways to achieve the same budget deficit ratio: the ugly (Japanese) way and the virtuous way. If fiscal policy remains chronically too tight even in recession, economic growth is destroyed, tax revenues plummet, and a deficit opens up. So far, that is—unfortunately—the US path in this recession, a path already well-worn by two decades of Japanese experiments with belt-tightening. The alternative (let us call it the Chinese example) is that a downturn is met with an aggressive and appropriately-sized discretionary response. In that case, growth is quickly restored, tax revenue begins to grow, and the budget deficit is reduced.

We emphasize that the deficit outcome is of no consequence for a sovereign nation. What is important is that the “ugly” Neoliberal path means chronically insufficient demand, high unemployment, and lots of suffering. The virtuous path—which is always available to a sovereign government—means less loss of output and employment, and relatively rapid resumption of economic growth. So it is not the deficit outcome that matters, rather it is the real suffering imposed by slow growth that results when fiscal policy is too tight.

In conclusion, the Neoliberal agenda would impose the ugly path on the US and UK. President Obama and Prime Minister Brown should tell the Neoliberals to take a hike.

#### The thesis of anti-deficit arguments is fundamentally wrong—only sustained deficit spending achieves economic growth.

Galbraith 10 — James K. Galbraith, Lloyd M. Bentsen Jr. Chair in Government/Business Relations and Professor of Government at the University of Texas, Senior Scholar at the Levy Economics Institute, Chair of Economists for Peace and Security, Ph.D. in Economics from Yale University, 2010 (“In defense of deficits,” *San Francisco Chronicle*, March 21st, Available Online at http://articles.sfgate.com/2010-03-21/opinion/18841327\_1\_wasteful-spending-deficit-private-loans/, Accessed 03-25-2010)

For this reason, the deficit phobia of Wall Street, the press, some economists and practically all politicians is one of the deepest dangers that we face. To cut current deficits without first rebuilding the economic engine of the private credit system is a sure path to stagnation, to a double-dip recession - even to a second Great Depression.

There are two ways to get the increase in total spending that we call "economic growth." One way is for government to spend. The other is for banks to lend.

For ordinary people, public budget deficits, despite their bad reputation, are much better than private loans. Deficits put money in private pockets. Private households get more cash. They own that cash free and clear, and they can spend it as they like. Ordinary people benefit, but there is nothing in it for banks.

And this explains the deficit phobia of Wall Street. Bankers don't like budget deficits because they compete with bank loans as a source of growth. When a bank makes a loan, cash balances in private hands also go up. But now there is a contractual obligation to pay interest and to repay principal. If the enterprise defaults, there may be an asset left over - a house or factory or company - that will then become the property of the bank.

All of this should be painfully obvious, but it is deeply obscure. It is obscure because legions of Wall Streeters have labored mightily to confuse the issues.

We also hear about the impending "bankruptcy" of Social Security, Medicare - even the United States itself. Or of the burden that public debts will "impose on our grandchildren." Or about "unfunded liabilities" supposedly facing us all. All of this forms part of one of the great misinformation campaigns of all time.

The misinformation is rooted in what many consider to be plain common sense. It may seem like homely wisdom, especially, to say that "just like the family, the government can't live beyond its means." But it's not. In these matters the public and private sectors differ on a very basic point. Your family needs income in order to pay its debts. Your government does not.

Private borrowers can and do default.

With government, the risk of nonpayment does not exist. Government spends money (and pays interest) simply by typing numbers into a computer. Because it is the source of money, government can't run out.

It's true that government can spend imprudently. Too much spending may lead to inflation. Wasteful spending - on unnecessary military adventures, say - burns real resources. But no government can ever be forced to default on debts in a currency it controls. Public defaults happen only when governments don't control the currency in which they owe debts - as Argentina owed dollars or as Greece now owes euros. But for true sovereigns, bankruptcy is an irrelevant concept.

Nor is public debt a burden on future generations. It does not have to be repaid, and in practice it will never be repaid. Personal debts are generally settled during the lifetime of the debtor or at death. Governments do not die - except in war or revolution, and when that happens, their debts are generally moot anyway.

So the public debt simply increases from one year to the next. In the entire history of the United States it has done so, with budget deficits and increased public debt on all but about six very short occasions - with each surplus followed by a recession. Far from being a burden, these debts are the foundation of economic growth.

#### Deficit spending is key to growth—job creation and aggregate demand.

Auerback 9 — Marshall Auerback, Market Analyst and Commentator at the Franklin and Eleanor Roosevelt Institute—an advocacy organization committed to the ideals of the FDR Administration, 2009 (“Government Spending is the Solution--Not the Problem,” *Counter Punch*, September 15th, Available Online at http://www.counterpunch.org/ auerback09152009.html, Accessed 09-23-2009)

By the same token, the emphasis on "sound fiscal management”, which allegedly created the platform for vigorous, low inflationary growth, generating jobs and higher incomes is false. Similarly, it is clear that the current reliance on monetary policy (accompanied by the budget deficit phobia) will always fail to deliver full employment and relies on the impoverishment of the disadvantaged for its ability to achieve low inflation.

In the “market fundamentalist” era, prior to the current economic crisis, governments began to rely on monetary policy for counter-stabilization. According to the logic, this rendered fiscal policy a passive player. Under the misguided inflation-targeting regimes that emerged in the early 1990s, central banks adjusted short-term interest rates to control inflation and therefore saw the unemployment rate as a policy tool rather than a legitimate target in its own right. Given the erroneous belief that expansionary fiscal policy was inflationary and its use would compromise the primacy of monetary policy, governments began to pursue surpluses and put in place frameworks to punish deficits and penalize workers who obtained high wage settlements, on the grounds that this was inherently inflationary (though this logic is never extended to CEO executive compensation or Wall Street bonuses).

The results have been clear. They indicate that this way of managing the economy cannot possibly be a sustainable long-term strategy. The emphasis we have placed on "financial responsibility" on the government side has actually introduced a deflationary bias that has slowed output and employment growth (keeping unemployment at unnecessarily high levels) and has forced the non-government sector into relying on increasing debt to sustain consumption. The complaints about “private sector debt fuelled” consumption miss the mark: the debt accumulation is a direct consequence of our failure to use fiscal policy in a manner which supports aggregate incomes and job growth. Targeting wages and the use of a buffer stock of unemployed labor have been the preferred methods of controlling inflation, but minimizing economic output below full potential.

This was not, however, the model which gave the US its greatest period of prosperity. In fact, until the mid-1970s, the U.S. consistently paid the highest industrial wages in the world. According to the late Seymour Melman (a professor of industrial engineering at Columbia University), this fact actually helped the U.S. maintain its economic supremacy.

Melman’s concept that explained this unconventional wisdom he called “alternative cost”. The basic idea is this: faced with high labor costs, firm managers will be more willing to mechanize, that is, use more machinery, and more sophisticated machinery, instead of using labor. By using more, better machinery, they increase labor productivity, which leads to higher wages, and they also stay at the cutting edge of technology. Melman compared factories in England and the U.S. after World War II, and found that the English, who paid lower wages, were using more primitive equipment than the Americans. More recently, his theory has been echoed in Suzanne Berger’s new book, How We Compete, in which she argues that employing cheap labor is not the most effective way of responding to global competition. The activities that succeed over time are those that involve conditions – such as long-term working relationships with customers and suppliers and specialized skills – which companies whose main asset is cheap labor cannot match. A company policy of forcing down wages is not a recipe for long-term economic success.

Economic growth has never been strong enough to fully employ the willing workforce and inequalities are rising throughout the Western world not falling. Further, the disparities between wealthy and poor countries have widened. By curbing the role of government and fiscal policy, we risk reverting to an approach which not only established the pre-conditions for the current crisis including the massive build-up of non-government debt and persistently high labor underutilization, but will almost certainly ensure a return to intense recessionary pressures (at a time when we are still experiencing double digit unemployment). To be clear: I am not advocating unlimited government deficits or spending. Rather, the size of the deficit (surplus) should be market determined by the desired net saving of the non-government sector. This may not coincide with full employment and so it is the responsibility of the government to ensure that its taxation/spending are at the right level to ensure that this equality occurs at full employment.

#### Their economic assumptions are wrong—deficit spending is key to avoid a debt-deflation cycle.

Auerback 9 — Marshall Auerback, Market Analyst and Commentator at the Franklin and Eleanor Roosevelt Institute—an advocacy organization committed to the ideals of the FDR Administration, 2009 (“Government Spending is the Solution--Not the Problem,” *Counter Punch*, September 15th, Available Online at http://www.counterpunch.org/ auerback09152009.html, Accessed 09-23-2009)

Deficit hawks fail to understand that not all debt is created equally. As James Galbraith, L. Randall Wray and Warren Mosler have argued, there is no legitimate analogy to be drawn about the budgets of the government, which issues the currency, and the budgets of the non-government sector (households, firms etc) which uses that currency. The former does not have a financial constraint and can spend freely whereas the latter has to “finance” all spending either through earning income, drawing down savings or liquidating assets.

Although the global debt problem is very serious, the focus on growing government deficits and the need to rein in fiscal expenditures is profoundly misplaced, particularly in the U.S., where (relative to Europe and Japan), the government debt is low, relative to the size of the economy. Additionally, as a matter of national accounting, deleveraging in the private sector cannot happen without an increase in the government’s deficit (the government’s deficit equals by identity the non-government’s surplus. Consequently, if the US private sector is to rebuild its balance sheet by spending less than its income, the government will have to spend more than its tax revenue; the only other possibility is that the rest of the world begins to dis-save massively—letting the US run a current account surplus—but that is highly implausible). In addition, if the government deficit does not grow fast enough to meet the saving needs of the private domestic sector, national income will decline, and, given the size of the private sector’s debt problem, a full-blown debt-deflation process will emerge.

### A2: Deficits Are Historically High

#### False—debt levels won’t be historically high even under pessimistic projections.

Baker 10 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2010 (“The Budget Deficit Scare Story and the Great Recession,” Center for Economic and Policy Research, February, Available Online at http://www.cepr.net/documents/publications/deficit-2010-02.pdf, Accessed 04-26-2010, p. 7-8)

It is also worth noting that neither the current debt-to-GDP ratio or the ratio projected for 2020 stand out for being especially high compared to either past U.S. levels or the levels of other advanced countries at present. CBO projects that the year-end debt-to-GDP ratio for 2010 will be 60.3 percent. It projects that this ratio will rise to 66.7 percent by the end of 2020.3 Even assuming that normal adjustments are made to the baseline for the extension of expiring tax provisions and other predictable additions to the deficit, the debt-to-GDP ratio is still likely to be under 90 percent by the end of the decade.

By comparison, the debt-to-GDP ratio at the end of 1946 was 108.6 percent of GDP.4 So, by historic standards, even at the end of the next decade, the United States will still have some distance to go before it reaches prior peak levels of indebtedness. There are also many other advanced countries at present that have considerably higher debt levels, as shown in Figure 4. According to the data from the International Monetary Fund, France and Germany will have ratios of net debt-to- GDP of 67.0 percent and 70.3 percent, respectively, at the end of this year. Japan will have a ratio of net debt-to-GDP of 104.6 percent and Italy will have a ratio of 112.8 percent.5 [end page 7]

While high debt-to-GDP ratios can impose a burden on government finances and the economy, the point of these comparisons is that there is no reason to believe that the United States faces any imminent danger of a flight from its debt. It has carried a considerably larger debt burden in the past and had no difficulty finding willing lenders at the time. Other countries that currently carry much higher debt burdens are still able to borrow at relatively low cost in financial markets. In short, there is no reason to believe that the United States faces any near-term or even mid-term loss of confidence based on its debt levels.

### A2: Deficits Are Unsustainable

#### Economic growth ensures that deficits decline—it’s counter-cyclical.

Wray 10 — L. Randall Wray, Professor of Economics at the University of Missouri-Kansas City, Research Director with the Center for Full Employment and Price Stability, and Senior Research Scholar at The Levy Economics Institute, with Yeva Nersisyan, Ph.D. Candidate in Economics and Math and Statistics at the University of Missouri–Kansas City, 2010 (“Neoliberal Deficit Hysteria Strikes Again,” *New Economic Perspectives*, March 22nd, Available Online at http://neweconomicperspectives.blogspot.com/2010/03/neoliberal-deficit-hysteria-strikes.html, Accessed 03-25-2010)

Indeed, robust growth reduces budget deficits by raising tax revenue and reducing certain kinds of government spending such as unemployment compensation. That was exactly the US experience in the postwar period. The budget deficit is highly counter-cyclical, and will come down automatically when the economy recovers.

### A2: The Government Will Go Bankrupt and/or Default On Its Debt

#### No risk of government insolvency—their argument is absurd.

Galbraith 9 — James K. Galbraith, Lloyd M. Bentsen, Jr., Chair in Government/Business Relations at the Lyndon B. Johnson School of Public Affairs at The University of Texas at Austin and Senior Scholar at the Levy Economics Institute, 2009 (“We Are at the Beginning of a Long, Profound, Painful Process of Change,” Testimony before the Committee on Financial Services of the U.S. House of Representatives, February 26th, Available Online at http://mrzine.monthlyreview.org/2009/galbraith270209.html, Accessed 04-16-2010)

Part of the worry about "entitlements" relates to borrowing, and thus to future deficits. Are these "unfunded liabilities" so large as to threaten the creditworthiness of the government? Clearly this is not the case. Despite immense efforts by the gloom-and-doom chorus on this question, the government of the United States is today funding itself, long term, for less than it did in the 1950s. Solvency was not a question then and is not a question now. This also suggests that the long-term deficit projections for the government as a whole, though much discussed at the fiscal responsibility summit, are not a worry for the financial markets, either.

### A2: Deficit Spending Will Cause A Credit Downgrade

#### Empirically denied—S&P downgraded U.S. debt but the market laughed it off.

Baker 11 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2011 (“The S&P Downgrade Market Plunge Myth,” *Huffington Post*, August 15th, Available Online at http://www.huffingtonpost.com/dean-baker/the-sp-downgrade-market-p\_b\_927383.html, Accessed 08-30-2011)

This story has as much credibility as John Edwards' tales of marital bliss during his presidential campaign. First, every informed investor knows S&P's sterling track record of missing everything in sight. It gave top investment grade ratings to hundreds of billions of dollars of subprime mortgage-backed securities, to Lehman until its bankruptcy, to AIG until its collapse, to Enron until just before its collapse. They know about its $2 trillion arithmetic error in assessing U.S. indebtedness.

They also know that S&P, like the other credit rating companies, is very concerned about the final wording of rules that are being written as part of the Dodd-Frank financial reform bill. That is why it is far more likely that the downgrade was done with the hope of currying favor from powerful political figures than out of the belief that the government will be unable to pay its debt.

This is why the markets completely laughed off the S&P downgrade. Yes, the markets completely laughed off the S&P downgrade. Let's say that a third time just so that even a Washington Post editor can understand it: the markets laughed off the S&P downgrade.

The S&P downgrade was supposed to mean that it is now more likely that the U.S. government will not be able to pay its debt than previously believed. If the markets took this warning seriously then they would attach a higher risk premium to U.S. government bonds. That would mean that bonds would fall in price and the interest rate on government debt would rise.

But the exact opposite happened. U.S. government bonds soared in price. The interest rate on Treasury bonds plummeted to less than 2.2 percent, near-record lows. In other words, investors voted with money as loudly as possible that they view U.S. government debt as a very safe asset and that the S&P crew doesn't have a clue.

#### No impact—the U.S. can always print money to repay its debt.

Baker 11 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2011 (“How to Think About Standard and Poor's Downgrade,” *Huffington Post*, August 6th, Available Online at http://www.commondreams.org/view/2011/08/06-7, Accessed 08-30-2011)

Finally, what does the risk of default on U.S. government debt mean? The debt is issued in dollars. That means it is payable in dollars. The U.S. government prints dollars. This means that if some reasons the government was unable to tax or borrow to raise the money to pay its debt then it could always print it. This may carry a risk of inflation, but S&P is not in the business of making inflation predictions, they are in the business of assessing the likelihood that debt will be repaid. (Of course if they are worried that inflation will erode the value of U.S. debt, S&P would also have to downgrade all debt denominated in dollars everywhere in the world.)

#### Current investor behavior proves our argument—don’t believe the hype.

Baker 10 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2010 (“The Budget Deficit Scare Story and the Great Recession,” Center for Economic and Policy Research, February, Available Online at http://www.cepr.net/documents/publications/deficit-2010-02.pdf, Accessed 04-26-2010, p. 7)

The main argument made against additional stimulus at this point is that it would jeopardize the standing of the U.S. government in financial markets. This assertion seems to contradict the current behavior of financial markets, where long-term Treasury debt continues to be held at very low yields. If financial markets questioned the ability of the U.S. government to honor its debt, they should already be demanding a premium on longer-term issues, like 10-year or 30-year Treasury bonds. As it stands, these bonds continue to trade at interest rates that are near post-World War II lows. In other words, the investors who are actually betting on the financial health of the U.S. government don’t seem to share the fears of the policy analysts and economists complaining about the deficit.

#### Reject the deficit terrorism of the ratings agencies—sovereign U.S. debt can only be rationally rated Triple-A.

Wray 10 — L. Randall Wray, Professor of Economics at the University of Missouri-Kansas City, Research Director with the Center for Full Employment and Price Stability, and Senior Research Scholar at The Levy Economics Institute, with Yeva Nersisyan, Ph.D. Candidate in Economics and Math and Statistics at the University of Missouri–Kansas City, 2010 (“Neoliberal Deficit Hysteria Strikes Again,” New Economic Perspectives, March 22nd, Available Online at http://neweconomicperspectives.blogspot.com/2010/03/neoliberal-deficit-hysteria-strikes.html, Accessed 03-25-2010)

The ratings agencies are another matter altogether. These blessed every kind of Wall Street excess with triple A ratings. They never saw a NINJA loan they did not love. Yet, they are engaged in an ugly form of deficit terrorism, attacking one country after another, downgrading debt, raising interest rates and causing budget deficits to rise, which then pushes up credit default swap prices and triggers further downgrades. Ratings agencies serve no public purpose. They are thoroughly incompetent, and probably irredeemably fraudulent. They should be shut down, investigated, and prosecuted.

President Obama and PM Brown should “just say no” to the attempted intervention by these fundamentally misguided deficit hawks into their economic and political affairs. Not only would fiscal tightening now or even within the next several years be a monumental mistake, the notion that continued deficits threaten our economies is unsound. In the remainder of this piece we will briefly explain why. What these Neoliberals do not understand is that the UK and US operate with sovereign currencies—that is both of these nations issue their own non-convertible (floating exchange rate) currencies. For this reason the comparison with any nation that uses the Euro (such as Greece), or with a nation that pegs to precious metals or foreign currencies is invalid. In other words, there is no question of solvency or sustainability of deficits for the US and UK. Sovereign debt of these nations never carries default risk and hence cannot be rated below triple A.

#### The bond ratings agencies have no credibility—their threats are politically motivated.

Baker 10 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2010 (“What explains a Moody's change?,” *The Guardian*, March 23rd, Available Online at http://www.guardian.co.uk/commentisfree/cifamerica/2010/ mar/23/us-debt-rating, Accessed 03-25-2010)

Moody's and the other bond rating agencies have featured prominently in the build-up to the financial crisis. These agencies gave investment grade ratings to complex financial instruments filled with subprime mortgages and other bad assets. These ratings allowed Goldman Sachs and other investment banks to sell this trash around the country and the world, ensuring that the effects of the collapse of the housing bubble would reverberate throughout the financial system.

It was not just incompetence that caused Moody's to misunderstand the quality of the issues it was rating. Moody's and the other bond-rating agencies were getting paid by the banks whose assets that they were rating. The bond-rating agencies knew that these companies wanted investment grade ratings for their issues. As one examiner for Standard and Poor's said in an email, they would give investment grade ratings to products "structured by cows".

This record must be kept in mind when considering the possibility of a Moody's downgrade of US government debt. It is no secret that many on Wall Street would love to see social security and Medicare cut back or even privatised. Investment banker Peter Peterson has even committed $1bn toward promoting this agenda. When Moody's threatens to downgrade US government debt, or if it actually does so, it may reflect its actual assessment of the creditworthiness of the US government or it could be a reflection of the Wall Street agenda to cut back these key public programmes.

### A2: Deficit Spending Will Cause China To Dump The Dollar

#### Zero risk of a dollar dump.

Baker 10 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2010 (“The Budget Deficit Scare Story and the Great Recession,” Center for Economic and Policy Research, February, Available Online at http://www.cepr.net/documents/publications/deficit-2010-02.pdf, Accessed 04-26-2010, p. 8-9)

As a practical matter, it is also not even clear what a crisis in confidence could look like. If domestic and foreign investors lost confidence in the government’s ability to service its debt, then presumably this would lead to a flight from the dollar. This is turn would put downward pressure on the dollar relative to other currencies. Of course, it has been official policy of both the Bush and Obama administrations that the dollar should fall against the Chinese yuan. So perhaps the flight from the dollar would bring about this longstanding policy goal and thereby make U.S. goods more competitive in world markets.

If investors were to flee the dollar because of the indebtedness of U.S. government, which country could they turn to as a safe haven, since most other wealthy countries have comparable or higher levels of indebtedness? Furthermore, if there were a large-scale flight from the dollar, would our trading partners tolerate a very low and therefore hypercompetitive value of the dollar? How large would Europe’s trade deficit with the United States be if the euro bought 2.5 dollars? Would Canada [end page 8] let the U.S. dollar fall to the point where it was only worth 50 Canadian cents? Would the U.K. let the dollar fall to the point where the exchange rate was 3 dollars for a pound?

A moment’s reflection should indicate the absurdity of the scenario of a flight from the dollar. Our trading partners would have no choice except to intervene to keep the dollar from falling too low; otherwise they would see large sectors of their economies destroyed by competition from much lower-cost U.S. exports. This is not an argument for pursuing reckless fiscal policies. However, the scenario of a full-fledged collapse of the dollar, in a world where the U.S. economy is otherwise healthy, is absurd on its face.

#### Fears of a Chinese dollar dump are facially absurd.

Baker 10 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2010 (“The Deficit and Our Children: Just the Facts,” *truthout*, April 26th, Available Online at http://www.truthout.org/the-deficit-and-our-children-just-facts58864, Accessed 04-26-2010)

Finally, the scare story, that China might one day dump its bonds and send the dollar tumbling, is absurd on its face. Both the Bush and Obama administrations were pressuring the Chinese to raise the value of their currency. Are we worried that one day they will dump their huge holdings of dollars and send the yuan soaring against the dollar? In other words, the deficit hawks want us to be worried that the Chinese government will one day do exactly what we have been asking them to do for years: stop buying up dollars to depress the value of the yuan against the dollar.

#### There’s no impact even if it happens—other investors will fill-in.

Baker 10 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2010 (“The Budget Deficit Scare Story and the Great Recession,” Center for Economic and Policy Research, February, Available Online at http://www.cepr.net/documents/publications/deficit-2010-02.pdf, Accessed 04-26-2010, p. 12)

Many of the papers that discuss the problem of the deficit and debt highlight the fact that a large and growing portion of the debt is held by foreigners, especially the government of China. Focus groups may show that raising the fear of foreign or Chinese ownership of debt is effective politics, but this scare tactic completely misrepresents the relevant policy issues.

On its face, there is no obvious reason that we should care who owns the government debt. The dumping of government bonds by a hostile government would cause the interest rate on these bonds to rise. That would mean that holders of other debt that had previously offered somewhat higher interest rates than government bonds, such as mortgage-backed securities guaranteed by Fannie Mae or Freddie Mac, would decide to switch to government bonds to take advantage of the higher interest rate. Similarly, investors might switch from holding debt of safe and long-established corporations, like Verizon and General Electric, to holding government debt, if the interest rate on government bonds had risen. They may also switch from holding the debt of other countries, if interest rates on U.S. government debt suddenly became higher than the interest rates on countries viewed as less safe.

Because these markets are so huge, it is likely that the substitutions from other assets to U.S. government bonds would eliminate most of the interest rate hike that immediately resulted from an initial sell-off by China or any other investor that might be politically motivated. While a sell-off could lead to a short-term increase in U.S. interest rates, it is unlikely that any substantial increase would be sustained through time, unless there were fundamental problems in the U.S. economy. In that case, interest rates would likely rise, regardless of who owned the debt.

#### And—that means it’s net better for the U.S.

Burtless 10 — Gary Burtless, Senior Fellow in Economic Studies at the Brookings Institution, 2010 (“If China Stops Buying our Debt, Will Calamity Follow?,” *National Journal*, February 27th, Available Online at http://www.brookings.edu/opinions/2010/0222\_china\_debt\_burtless.aspx?p=1, Accessed 03-25-2010)

An important barrier to a dollar decline is China’s policy of maintaining a low value of its own currency. A sizeable sell-off of Treasury securities by China would almost certainly lead to an appreciation of China's currency and depreciation of the dollar. This is more likely to help the United States than to hurt us, contrary to the claims of many observers. To be sure, the U.S. government would have to pay somewhat higher interest on its debt, but it seems likely the gains to the U.S. from faster net export growth would greatly outweigh the losses from higher public borrowing costs.

#### Disregard their evidence—it is motivated by xenophobia.

Baker 10 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2010 (“The Budget Deficit Scare Story and the Great Recession,” Center for Economic and Policy Research, February, Available Online at http://www.cepr.net/documents/publications/deficit-2010-02.pdf, Accessed 04-26-2010, p. 13)

Finally, the discussion of foreign ownership of government debt fundamentally misrepresents its cause and importance in a way that seems intended to exploit xenophobic fears. There is a legitimate concern about the drain of future income that results from foreign ownership of U.S. financial assets, but this is a completely separate issue from the percentage of the government debt held by foreigners. Furthermore, foreign ownership of U.S. assets depends on the trade deficit. It has no direct relationship to the government deficit. Apparently, the deficit hawks who take this route do not feel that they can gain public support if they base their argument on real issues.

#### Their authors conflate unrelated issues—Chinese debt ownership is irrelevant to the budget deficit.

Baker 10 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2010 (“The Deficit and Our Children: Just the Facts,” *truthout*, April 26th, Available Online at http://www.truthout.org/the-deficit-and-our-children-just-facts58864, Accessed 04-26-2010)

3) The debt to China has nothing to do with the budget deficit and does not present the disastrous risks claimed by the deficit hawks. The United States borrows money from China because of the trade deficit. The budget deficit is beside the point. If we had the same level of GDP and the same value of the dollar against the Chinese yuan, we would have just as large a trade deficit with China today even if the budget were balanced.

### A2: Obama Stimulus Failed

#### Wrong—the stimulus created millions of jobs—the best studies prove *our* argument, not theirs.

Bernstein 11 — Jared Bernstein, Senior Fellow at the Center on Budget and Policy Priorities, formerly served as Chief Economist and Economic Adviser to Vice President Joe Biden, former senior economist and director of the Living Standards Program at the Economic Policy Institute, former deputy chief economist at the U.S. Department of Labor, holds a Ph.D. in Social Welfare from Columbia University, 2011 (“Look at the evidence: The stimulus worked,” CNN, August 31st, Available Online at http://articles.cnn.com/2011-08-31/opinion/bernstein.obama.recovery\_1\_job-growth-unemployment-rate-gdp-growth?\_s=PM:OPINION, Accessed 09-08-2011)

As others have, and more will as the presidential election heats up, David Frum went after the Recovery Act on these pages. I'll address his critiques in a moment, but first let's just get this right out there: Though we can never know alternative histories -- in this case, how the economy would have performed absent the stimulus -- the weight of the evidence is that the Recovery Act did what we expected it to do.

It created a few million jobs and shaved a few percentage points off the unemployment rate. But most important, it kept a bad situation from getting a lot worse.

Lots of academic, nonpartisan evidence reveals the Recovery Act created or saved millions of jobs. The Congressional Budget Office, for example, just released a report finding that at its height about a year ago, the act created (taking the midrange of their estimates) around 2.5 million jobs, and shaved around 1.5 points off of the unemployment rate.

Again, that's what we expected in terms of unemployment reduction, though we clearly were too optimistic about the level of the jobless rate, in large part because we had not yet seen data on just how deep the unfolding downturn was.

One scholarly study by economists Alan Blinder and Mark Zandi that looked at the full spate of anti-recession initiatives -- not just the Recovery Act -- found that "the effects of the fiscal stimulus alone appear very substantial, raising 2010 real GDP by about 3.4%, holding the unemployment rate about 1.5 percentage points lower, and adding almost 2.7 million jobs to U.S. payrolls."

#### The evidence is overwhelmingly conclusive—the stimulus *worked*.

Coe 11 — Richard D. Coe, Professor of Economics at New College of Florida, holds a Ph.D. in Economics from the University of Michigan, 2011 (“The stimulus worked,” *Herald-Tribune*, August 23rd, Available Online at http://www.heraldtribune.com/article/20110823/COLUMNIST/110829890/-1/news?template=printart, Accessed 09-08-2011)

It seems fashionable these days to label the American Economic Recovery and Reinvestment Act of 2009, more popularly known as the "stimulus program," a failure. The program has come and gone, economic growth continues to disappoint, and unemployment remains at unacceptably high levels, standing today at 9.3 percent — the same level as when the program was initiated. An obvious failure.

However, the only obvious thing about this argument is that it is obviously wrong.

Given the size and nature of the stimulus program, it did what it could — it ended the Great Recession and kept unemployment from rising to double-digit levels. Too small in size and too heavily tilted toward tax cuts rather than direct job-creating spending, it was simply not capable of returning the economy to full employment.

But given the limitations placed on it, it was as successful as could reasonably be expected.

Let's start with economic growth. Prior to the implementation of the stimulus program, the economy was in a sharp downward spiral, culminating in a shocking 8.9 percent decline in real gross domestic product in the fourth quarter of 2008 and an equally disastrous decline of 6.7 percent in the first quarter of 2009.

Once the stimulus program kicked in, the turnabout was immediate. Real GDP increased by 1.7 percent in the third quarter of 2009, followed by impressive increases of 3.8 percent in each of the next three quarters. The Great Recession was officially over, as determined by the National Bureau of Economic Research. (The "official" end of the recession should not, however, be confused with a return to full-employment.) The flip side of the coin is equally telling. As the stimulus program faded, the once-promising recovery stalled — real GDP growth fell to a pathetic 0.4 percent in the first quarter of this year, and second quarter growth appears to be only slightly higher.

Economy would have been worse

The fact that economic growth increased as the stimulus program was implemented and decreased as it ended is clear evidence of the positive effect the program had on the economy. But what about unemployment? Can one really characterize the stimulus program as successful when the unemployment rate never fell below 8.8 percent?

#### The stimulus prevented a depression—more is needed.

Bernstein 11 — Jared Bernstein, Senior Fellow at the Center on Budget and Policy Priorities, formerly served as Chief Economist and Economic Adviser to Vice President Joe Biden, former senior economist and director of the Living Standards Program at the Economic Policy Institute, former deputy chief economist at the U.S. Department of Labor, holds a Ph.D. in Social Welfare from Columbia University, 2011 (“Look at the evidence: The stimulus worked,” CNN, August 31st, Available Online at http://articles.cnn.com/2011-08-31/opinion/bernstein.obama.recovery\_1\_job-growth-unemployment-rate-gdp-growth?\_s=PM:OPINION, Accessed 09-08-2011)

What they can't say, at least not without ignoring the evidence, is that the Recovery Act failed. It did what we expected it to do, creating jobs, lowering unemployment and preventing recession from morphing into depression. If anything, what the evidence shows is that it ended too soon. And that is why President Obama is, as we speak, crafting a smaller package of targeted jobs measures to build on the success of the Recovery Act.

Partisans thus need to put aside their talking points, absorb this evidence and get those measures to work in the economy as soon as possible.

### A2: New Deal Failed

#### The New Deal proves that stimulus is crucial to economic recovery.

Woolner 12 — David Woolner, Senior Fellow and Hyde Park Resident Historian for the Roosevelt Institute, 2012 (“FDR's New Deal Shattered the Austerity Myth,” *Next New Deal*—the blog of the Roosevelt Institute, May 7th, Available Online at http://www.nextnewdeal.net/fdrs-new-deal-shattered-austerity-myth, Accessed 06-12-2012)

Conservative commentators today are fond of arguing that the New Deal did not work, that it was the war, rather than New Deal spending, which finally got the United States out of the Great Depression. What they fail to mention, of course, is that New Deal spending did work, just not enough to pull us out of the deep trough we were in. For that we needed much more spending, the kind of spending—and borrowing—that occurred in World War II. According to the logic of today’s budget hawks, such a massive level of deficit and debt should have brought the U.S. economy to a screeching halt once the war was over. But that did not happen. On the contrary, the period of economic growth that occurred in the United States after the war was the largest and longest the world had ever seen.

Much like the 1930s, our slow climb out of the Great Recession has been made all the more difficult and painful thanks in large part to the unwillingness of austerity hawks in Congress to pass the president’s ill-fated jobs bill and other pieces of stimulus legislation. Sadly, they seem far more interested in promoting the myth of austerity and the evils of short-term deficit spending than they do in confronting the overwhelming evidence from Europe and our own history that now is the time not to cut the federal budget, but to expand it.

### A2: Evidence that Relies on the “90% of GDP” Threshold

#### The study that their evidence cites is fatally flawed—sovereign debt is different than non-sovereign debt.

Wray 10 — L. Randall Wray, Professor of Economics at the University of Missouri-Kansas City, Research Director with the Center for Full Employment and Price Stability, and Senior Research Scholar at The Levy Economics Institute, with Yeva Nersisyan, Ph.D. Candidate in Economics and Math and Statistics at the University of Missouri–Kansas City, 2010 (“Neoliberal Deficit Hysteria Strikes Again,” *New Economic Perspectives*, March 22nd, Available Online at http://neweconomicperspectives.blogspot.com/2010/03/neoliberal-deficit-hysteria-strikes.html, Accessed 03-25-2010)

Mr. Lipsky is certainly not alone in arguing that high debt levels will be detrimental for economic growth. A new and influential study by Kenneth Rogoff and Carmen Reinhart, heavily publicized by the media, purports to show that once the gross debt to GDP ratio crosses the threshold of 90%, economic growth slows dramatically—by at least one percentage point. But the findings reported in Rogoff and Reinhart cannot be applied to the situation of the US or to the case of many other nations today—those that are not pegging their currency to gold or any other currency. Indeed, the Rogoff and Reinhart study is fatally flawed precisely because it does not recognize the difference between sovereign debt—debt of a national government that issues its own nonconvertible currency—and private debt or the debt issued by nonsovereign government that pegs its currency to precious metal or foreign currency (or Euro nations that adopt the euro).

### A2: Evidence That Relies On The “Household” Analogy

#### Disregard evidence that relies on the *household analogy*—it is completely inapplicable.

Wray 10 — L. Randall Wray, Professor of Economics at the University of Missouri-Kansas City, Research Director with the Center for Full Employment and Price Stability, and Senior Research Scholar at The Levy Economics Institute, with Yeva Nersisyan, Ph.D. Candidate in Economics and Math and Statistics at the University of Missouri–Kansas City, 2010 (“Neoliberal Deficit Hysteria Strikes Again,” *New Economic Perspectives*, March 22nd, Available Online at http://neweconomicperspectives.blogspot.com/2010/03/neoliberal-deficit-hysteria-strikes.html, Accessed 03-25-2010)

Governments across the world have inflicted so many self-imposed constraints on public spending that the relatively simple operational realities behind public spending have been obscured. Most people tend to think that a balanced budget, be it for a household or a government, is a good thing, failing to make a distinction between a currency issuer and a currency user. Indeed, one of the most common analogies used by politicians and the media is the claim that a government is like a household: the household cannot continue to spend more than its income, so neither can the government. See here for more on the differences between a household and a government. Yet that comparison is completely fallacious. Most importantly, households do not have the power to levy taxes, and to give a name to—and issue—the currency that those taxes are paid in. Rather, households are users of the currency issued by the sovereign government. Here the same distinction applies to firms, which are also users of the currency.

## \*\*\* Inflation Good

### Inflation Key To Economic Recovery

#### Inflation spurs *growth*—solves risk aversion and stimulates the economy.

Mirhaydari 10 — Anthony Mirhaydari, investment columnist at MSN Money, former senior research analyst at Markman Capital Insight—an investment advisory and money management firm, 2010 (“No Inflation Means No Recovery,” *MSN Money*, September 8th, Available Online at http://articles.moneycentral.msn.com/Investing/Extra/mirhaydari-no-inflation-means-no-recovery.aspx?page=all, Accessed 09-08-2011)

The problem is extreme risk aversion. And it's being enabled by low inflation.

The hordes are hoarding

Instead of using cheap financing to invest and hire workers or even raise dividends or repurchase shares, corporations are hoarding cash. The ratio of liquid assets to total assets has jumped from 2.9% in 1980 to nearly 7%, a level not seen since 1960. As a result, the manufacturing capacity of the country is beginning to rust away as managers forgo even basic maintenance expenditures to stash money in the bank, a subject explored at length in a recent column.

The banks aren't doing much either. Although we've seen some positive signs, with lending standards finally beginning to ease, there are now fewer loans outstanding than there were in September 2008. Instead of extending credit to businesses and consumers, the financial sector is dumping its cash into U.S. Treasurys and parking money in the Federal Reserve's vaults. The latter strategy earns a paltry 0.25%, yet the amount of money sitting idle at the Fed has jumped from just $810 million in the months before the recession to more than $1 trillion now.

These are reservoirs of cash waiting to be tapped.

Similarly, U.S. consumers aren't using cheap credit to buy discounted luxury homes or go on spending sprees. That's despite mortgage rates that have plunged to just 4.3% while home affordability has returned to levels not seen since before the bubble. Credit card debts are being paid down. Indeed, the personal savings rate has jumped from a low of 0.8% in 2005 to 5.9% now.

Obviously, part of the problem is that many consumers, banks and businesses are still paying for past sins. Debts are being repaid and balance sheets rebuilt. And millions of people are still without work.

But the process is nearing its end. Banks are about 85% of the way through recognizing their housing-bubble losses, according to estimates by Credit Suisse and the International Monetary Fund. And Fed data show that household debt-service burdens have improved to levels not seen in 10 years. Overall, the picture is of an economy rebuilding its ability to create and consume credit.

Drunk on deflation

So what's the holdup?

With fear and uncertainly still dominating the popular consciousness, many Americans are more concerned about simply being able to get their money back than with getting higher returns or chasing the hottest investing idea. On the great scale of fear and greed, we're fully tilted toward fear.

And low inflation makes fearful decisions -- like leaving cash at the Fed to earn 0.25% or investing in 10-year Treasurys yielding 2.6% -- palatable.

You can see this in the way bonds and stocks have decoupled from their traditional relationship. Stocks are so undervalued relative to corporate bonds that they're trading at levels seen less than 0.01% of the time. (For the statistics buffs, equity yields are trading 3.36 standard deviations below the mean relative to Baa corporate yields.)

Under more-normal circumstances, inflation would slowly eat away at the returns from these conservative investments. It would force investors, managers and bankers to seek out riskier, higher-yield investments. That would help push cash back off the sidelines and back into the game – resulting in more loans, more investment and higher asset prices. This, in turn, would result in increased spending and hiring, helping propel the economy forward.

So the moral of the story is: We need inflation to help kick the recovery into overdrive. Moreover, inflation is the lesser evil at this point, with moderate inflation being less painful than a Japanese-style deflationary spiral.

#### Inflation is key to break the deflationary cycle—it spurs *investment* and *growth*.

Irwin 10 — Neil Irwin, reporter covering economics and the Federal Reserve for *The Washington Post*, regularly appears on MSNBC, CNBC, and the PBS NewsHour to discuss economic issues, holds an MBA from Columbia University where he was a Knight-Bagehot Fellow in Economics and Business Journalism, 2010 (“How A Touch Of Inflation Could Boost The Economy,” *The Washington Post*, September 18th, Available Online at http://www.washingtonpost.com/wp-dyn/content/article/2010/09/17/AR2010091706825\_pf.html, Accessed 09-08-2011)

Americans generally view rising prices as something to fear. But right now, a little inflation may be just what the economy needs.

Consumer prices rose 1.2 percent over the 12 months that ended in August, the Labor Department said Friday, and only 0.9 percent when volatile prices for food and energy are excluded. That is well below the range of 1.5 to 2 percent sought by the Federal Reserve.

The low inflation numbers reflect the reluctance of businesses to raise prices amid weak demand for their products and the inability of most workers to get raises at a time of high unemployment.

Somewhat higher inflation could strengthen the ailing economy. Inflation would make the heavy debt that Americans carry a bit more manageable as wages rise but the amount owed stays the same. And it would create more incentive for businesses to invest their cash rather than sit on it, because inflation would reduce the value of hoarded money.

Some economists fear outright deflation, a destructive, self-reinforcing cycle of falling prices that can cause a long period of economic misery.

But economic data released in recent months reveal a different reality: Prices are rising very, very slowly, and appear set to keep doing so for a long time to come. Investors expect inflation to average 1.2 percent over the next five years, according to data from the bond market.

Even if the United States can avoid the kind of deflation that crippled the Japanese economy in the 1990s, the current economic recovery could suffer if extremely low levels of inflation become the norm. The current rate of inflation may be just high enough to keep Fed policy makers from taking bold action to try to invigorate the recovery, but just low enough to represent a continued drain on economic activity.

"If that kind of equilibrium forms, you can get stuck in a really suboptimal situation," said Tim Duy, a University of Oregon economist.

With deflation, consumers and businesses respond to falling prices by sitting on cash, because it will become more valuable in the future as its buying power increases.

Hoarding, in turn, weakens the economy further, putting more downward pressure on prices.

But that vicious cycle doesn't suddenly kick in only when inflation moves from slightly positive to slightly negative. For example, businesses that forecast a very low rate of inflation would be more inclined to hold onto cash than they would if inflation were higher. Yet without new investment, the jobless rate could remain high, keeping wages—and ultimately prices—from rising.

#### Even if their economic theory is true generally, inflation is needed now to secure recovery—no risk of hyperinflation.

Baker 10 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2010 (“Why printing money makes sense,” *Guardian*, October 12th, Available Online at http://www.guardian.co.uk/commentisfree/cifamerica/2010/oct/11/useconomy-usemployment, Accessed 09-08-2011)

Obviously, we have to teach some elementary economics to the geniuses who design economic policy. The basic problem we face is a lack of demand. Note that this is the exact opposite of the deficit fixation – budget deficits are a problem when we have too much demand.

To better understand this demand problem, suppose that we had a super-effective counterfeiter: someone who could make near perfect copies of $50 or $100 bills. Suppose this person printed up $2tn of counterfeit money and began to spend it on all sorts of items. Our counterfeiter buys up houses and cars. They pay for incredibly lavish parties and trips. They hire all sorts of servants, groundskeepers and investment advisers.

What would be the effect of this counterfeiting scam on the economy?

In the current situation, it would provide an enormous boost to GDP and create millions of jobs. After all, everyone thinks the money is real. It is no different whether the counterfeiter and his underlings spend $2tn of counterfeit money or if firms suddenly start investing their hoards of cash or households begin to spend again as though the housing bubble had never collapsed.

That may sound troubling, but this is because the current economic situation is so extraordinary. In normal times, the economy is, at least partially, supply-constrained. Collectively, we want more goods and services than the economy is capable of producing. If our counterfeiter manufactured his $2tn in normal times, it likely would cause a serious problem of inflation. There would be more demand for cars, houses and other goods than the economy was able to supply. This would push up prices and wages, leading to a cycle of inflation that would persist until policy measures were taken to slow the economy – or the counterfeiter was caught.

In our demand-constrained economy, however, there is no problem of inflation. The economy can produce more of almost anything right now. The reason that we are not doing it is simply the lack of demand.

But the interesting part of the counterfeiter story is that his $2tn of phony money will not create problems even in the long run, assuming that he is eventually shut down. Suppose that the counterfeiter's lavish spending gets the economy back towards full employment around 2012, at which point he gets nailed by the FBI who finally figure out how to recognise the dud notes.

At that point, the $2tn will be grabbed out of circulation and destroyed. Assuming that the economy is strong enough at this point to remain near full employment even as this counterfeit wealth disappears, then there would be no lasting damage from the episode. The fictional wealth had generated demand when the economy needed it, but then was pulled out of circulation at the point when it could have generated inflation and "competed away" goods and services from others.

While it is unlikely we will see a successful counterfeiter on this scale, the government and the Federal Reserve Board can imitate the counterfeiter's actions. This is the story of fiscal stimulus: safe, fun and legal. Instead of putting people to work filling the counterfeiter's frivolous whims, we could have them work to build up the economy and meet important needs. The list of necessary tasks is long and well-known.

#### Inflation is key to recovery—it’s the only way to avoid Japanese-style deflation.

Mirhaydari 10 — Anthony Mirhaydari, investment columnist at MSN Money, former senior research analyst at Markman Capital Insight—an investment advisory and money management firm, 2010 (“No Inflation Means No Recovery,” *MSN Money*, September 8th, Available Online at http://articles.moneycentral.msn.com/Investing/Extra/mirhaydari-no-inflation-means-no-recovery.aspx?page=all, Accessed 09-08-2011)

Over the past three years, central bankers have flooded the U.S. financial system with money. Interest rates are at historical lows. But the economic recovery has stalled anyway.

Is a little inflation good?

Unemployment remains troublingly high. Home prices and stocks are still down a third from their pre-recession peaks.

The traditional approaches to stimulating the economy -- ultralow interest rates and government spending -- just aren't working.

What we need is a healthy dose of inflation.

Yes, I know that might sound crazy, but I'm not talking the Weimar-style hyperinflation that Germany suffered through during the 1920s or even the spike we saw at the end of the 1970s. A return to an annual inflation rate on the order of 3% to 4% is what's needed.

Why we could use inflation

Because inflation and interest rates are so low right now, strange things are happening:

\* Companies are hoarding cash instead of putting it to work, because, with capital so cheap, even the tiny return from saving it is a boon.

\* Investors are tucking money into safe, low-return investments instead of feeding growth by buying company stocks.

\* Consumers are saving instead of spending despite low interest rates, partly because prices may fall lower.

\* Banks, scared to lend, are piling up excess reserves that are earning virtually nothing.

An increase in prices would force changes in these behaviors. (I made a similar argument in April.)

Without it, we risk a slide into a Japanese-style deflationary spiral in which the economy falters and the cost of our debt burden swells. And as I recently warned, reliving Japan's experience of the past 20 years wouldn't be pretty. The Dow Jones Industrial Average ($INDU) could drop below 4,000, and home prices could fall an additional 46% by 2030.

### Inflation Solves Long-Term Deficit

#### Inflation solves the debt in the long-term *without* tanking the economy in the short-term.

Mirhaydari 10 — Anthony Mirhaydari, investment columnist at MSN Money, former senior research analyst at Markman Capital Insight—an investment advisory and money management firm, 2010 (“Why Inflation Would Be Good For Us,” *MSN Money*, April 13th, Available Online at http://articles.moneycentral.msn.com/Investing/MutualFunds/why-inflation-would-be-good-for-us.aspx, Accessed 09-08-2011)

The idea is that a quick bout of higher-than-normal inflation would lower the nation's debt in real dollars, bailing the government out of the debt threat. That means we could avoid Draconian tax increases or big spending cuts, both of which would be politically unpopular and could scuttle the economic recovery. (One example of what such cuts might bring is the "Roadmap for America's Future" proposed by Paul Ryan, R-Wis., the ranking Republican member of the House Budget Committee. It envisions phasing out Medicare in favor of private health vouchers and calls for raising the Social Security retirement age, among other changes.)

#### Inflation quickly reduces the deficit—key to fiscal reform.

Mirhaydari 10 — Anthony Mirhaydari, investment columnist at MSN Money, former senior research analyst at Markman Capital Insight—an investment advisory and money management firm, 2010 (“Why Inflation Would Be Good For Us,” *MSN Money*, April 13th, Available Online at http://articles.moneycentral.msn.com/Investing/MutualFunds/why-inflation-would-be-good-for-us.aspx, Accessed 09-08-2011)

Inflation would also act as a stealthy fiscal reform. Though tax revenues are affected only slightly by inflation, two-thirds of government expenditures are affected more. That's why the real cost of government spending would wilt away in a high-inflation environment. Broda estimates that a run of 5% inflation would reduce the deficit by an additional 1% of GDP per year.

\* Broda = A team of economists at Barclays Capital led by Christian Broda

### Inflation Solves Short-Term Unemployment

#### Inflation would quickly reduce unemployment—key to spur growth.

Mirhaydari 10 — Anthony Mirhaydari, investment columnist at MSN Money, former senior research analyst at Markman Capital Insight—an investment advisory and money management firm, 2010 (“Why Inflation Would Be Good For Us,” *MSN Money*, April 13th, Available Online at http://articles.moneycentral.msn.com/Investing/MutualFunds/why-inflation-would-be-good-for-us.aspx, Accessed 09-08-2011)

A team of economists at Barclays Capital led by Christian Broda recently explored this subject in a research note to clients. In its words, the "time for high inflation is now," given the likelihood that there is limited cost to a temporary burst of higher prices.

One impact would be a reduction in real wages, which wouldn't seem like an acceptable cost to many of us. But in raw economic terms, the faster real wages fall, the faster the unemployment rate falls. It's simple supply and demand: At a lower price, businesses demand more labor.

Broda estimates that with an inflation rate of 5% over two years, the unemployment rate would fall 3 percentage points from this factor alone. Higher employment would fuel increased economic growth and bolster the government's tax revenue. The trade-off would be a decline in real wages, but inflation would mask those declines because the numbers on paychecks wouldn't drop, the report notes. Still, eventually workers would rebel and demand concessions. That's why this would be only a short-term fix.

### A2: Hyperinflation Bad

#### The Fed will intervene to prevent hyperinflation—no risk.

Baker 10 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2010 (“Why printing money makes sense,” *Guardian*, October 12th, Available Online at http://www.guardian.co.uk/commentisfree/cifamerica/2010/oct/11/useconomy-usemployment, Accessed 09-08-2011)

As is the case with the counterfeiter's illicit stash, the stimulus spending need not even create any long-term debt burden. The Fed could simply buy and hold the bonds issued to finance the spending. When the economy returns to more normal levels of employment, the Fed would raise interest rates, as it always does, to prevent inflation from posing a serious risk.

## \*\*\* Unemployment Bad

### Unemployment Bad — Systemic Impact

#### Unemployment causes widespread suffering and death—*systemic impact*.

Baker and Hassett 12 — Dean Baker, Co-Director of the Center for Economic and Policy Research, and Kevin Hassett, Senior Fellow and Director of Economic Policy Studies at the American Enterprise Institute, former served as a senior economist at the Board of Governors of the Federal Reserve System and an associate professor of economics and finance at the Graduate School of Business of Columbia University, holds a Ph.D. in Economics from the University of Pennsylvania, 2012 (“The Human Disaster of Unemployment,” *New York Times*, May 12th, Available Online at http://www.cepr.net/index.php/op-eds-&-columns/op-eds-&-columns/the-human-disaster-of-unemployment, Accessed 06-12-2012)

Long-term unemployment is experienced disproportionately by the young, the old, the less educated, and African-American and Latino workers.

While older workers are less likely to be laid off than younger workers, they are about half as likely to be rehired. One result is that older workers have seen the largest proportionate increase in unemployment in this downturn. The number of unemployed people between ages 50 and 65 has more than doubled.

The prospects for the re-employment of older workers deteriorate sharply the longer they are unemployed. A worker between ages 50 and 61 who has been unemployed for 17 months has only about a 9 percent chance of finding a new job in the next three months. A worker who is 62 or older and in the same situation has only about a 6 percent chance. As unemployment increases in duration, these slim chances drop steadily.

The result is nothing short of a national emergency. Millions of workers have been disconnected from the work force, and possibly even from society. If they are not reconnected, the costs to them and to society will be grim.

Unemployment is almost always a traumatic event, especially for older workers. A paper by the economists Daniel Sullivan and Till von Wachter estimates a 50 to 100 percent increase in death rates for older male workers in the years immediately following a job loss, if they previously had been consistently employed. This higher mortality rate implies that a male worker displaced in midcareer can expect to live about one and a half years less than a worker who keeps his job.

There are various reasons for this rise in mortality. One is suicide. A recent study found that a 10 percent increase in the unemployment rate (say from 8 to 8.8 percent) would increase the suicide rate for males by 1.47 percent. This is not a small effect. Assuming a link of that scale, the increase in unemployment would lead to an additional 128 suicides per month in the United States. The picture for the long-term unemployed is especially disturbing. The duration of unemployment is the dominant force in the relationship between joblessness and the risk of suicide.

Joblessness is also associated with some serious illnesses, although the causal links are poorly understood. Studies have found strong links between unemployment and cancer, with unemployed men facing a 25 percent higher risk of dying of the disease. Similarly higher risks have been found for heart disease and psychiatric problems.

The physical and psychological consequences of unemployment are significant enough to affect family members. The economists Kerwin Charles and Melvin Stephens recently found an 18 percent increase in the probability of divorce following a husband’s job loss and 13 percent after a wife’s. Unemployment of parents also has a negative impact on achievement of their children. In the long run, children whose fathers lose a job when they are kids have reduced earnings as adults — about 9 percent lower annually than children whose fathers do not experience unemployment.

We all understand how the human costs can be so high. For many people, their very identity is their occupation. Few events rival the emotional strain of job loss.

#### Stable employment is key to individual and social well-being—increased unemployment is a systemic harm affecting millions.

Schwebel 97 — Milton Schwebel, Distinguished Professor in the Graduate School of Applied and Professional Psychology at Rutgers University, 1997 (“Job Insecurity as Structural Violence: Implications for Destructive Intergroup Conflict,” *Peace & Conflict*, Volume 3, Issue 4, December, Available Online to Subscribing Institutions via Academic Search Elite, p. 338-340)

Psychologists and other social scientists have studied the benefits of employment over the course of more than half a century. From these studies we have learned that, to a considerable degree, work provides us with our identity, self-esteem, purpose in life, structure in daily living, and social relationships. The connection between these essentials and employment has been variously reflected in Freud's characterization of normalcy in adulthood as "loving and working"; Erikson's (1980) theory of adulthood; the life-span research of Levinson et al. (1978) with [end page 338] men and Roberts and Newton's (1987) research with women; and Super's (1980) life-span, life-space approach to career development.

William Julius Wilson (1996), a specialist in social policy, had this to say on the effects of the disappearance of work from urban ghettoes:

Work is not simply a way to make a living and support one's family. It also constitutes a framework for daily behavior, it imposes discipline. Regular employment determines where you are going to be and when you are going to be there. In the absence of regular employment, life, including family life, becomes less coherent. Persistent unemployment and irregular employment hinder rational planning in daily life, the necessary condition of adaptation to an industrial economy. (p. 30)

Recent studies on subjective well-being point up the important role of work. In a review of research on happiness, Myers and Diener (1995) said:

For many people, work provides personal identity: It helps define who they are. Work also adds to a sense of community: It offers people a network of supportive relationships and a "we feeling." This sense of pride and belonging to a group helps people construct their social identity. And work can add focus and purpose—a sense that one's life matters. (p. 15)

For those reasons, it is not surprising that people who are out of work or are underemployed are likely to be less satisfied with life than those productively engaged.

Several European social scientists assign a similar social as well as personal value to employment. A former Italian labor minister said, "Having a job means having certain rights which are connected with participation in modern democratic societies" (de Michelis, 1987, p. 171). Although a few years earlier he had deemed paid work to be the key both to the entitlement structures of modern societies and to their growth potential, by 1988 Dahrendorf described full time paid work as a "privilege" that would be available to ever fewer adults (Dahrendorf, 1988, p. 144). The meaning of paid work can be viewed from another perspective, by examining the psychological and physiological consequences of unemployment (or, at least, the variables associated with it). Prolonged unemployment has been found to be a threat to the worker, the family, and the community. In the United States, with a 1% rise in unemployment, homicides were found to increase 5.7%; suicides, 4.1%; admissions to mental hospitals, 4.3% for men and 2.3% for women; and deaths from stress-related disorders, almost 2% (Brenner, 1976). Pines (1982) reported that in communities affected by major layoffs, significant increases were found in child abuse, parent-child conflicts, and marital disputes. Studies like those reported by Cherlin (1979), found low marital satisfaction in marriages with unstable employment. Underemployment also poses threats to individuals, who tend to feel impotent and as if they were victims of fate (Burns, 1983). The rapid increase (over [end page 339] 200% between 1992-1994) in the United States in the use of temporary workers is likely to exacerbate feelings of insecurity, undermine self-esteem, and increase stress in spousal and parental relationships, possibly encouraging drug abuse.

For the "temps," as for all the others in disadvantaged positions in the labor market (or for those who have given up and are no longer in that market), the consequences due to insecurity about the future, not only about a job but also about health insurance and other supports, can be understood in terms of such theories as those of efficacy (Bandura, 1986), stress and coping (Lazarus & Folkman, 1984), self-concept (Rogers, 1961), and learned helplessness (Seligman, 1975).

It is not only the adult worker who is affected by employment status. Children growing up in families experiencing the insecurity of unemployment or underemployment are likely to have a dim view of the future. The parent on welfare or struggling to keep the family afloat on a temporary, minimum-wage job is not a role model that motivates children to strive to learn. Just a comparison between two types of families suffices to highlight the effects: The comfortable middle-class family where the parents have time and energy as well as the educational knowledge and skill to help their children learn; and the job-insecure working class family bordering on poverty where the parents are discouraged, fearful of the future, and often lacking in energy to help the children. In sum, employment status cuts deeply into the heart of family and community life, with present and future consequences for good or ill.

#### Unemployment sparks social unrest and violence—it undermines the fabric of society, culminating in ethnic hatred and genocide.

Schwebel 97 — Milton Schwebel, Distinguished Professor in the Graduate School of Applied and Professional Psychology at Rutgers University, 1997 (“Job Insecurity as Structural Violence: Implications for Destructive Intergroup Conflict,” *Peace & Conflict*, Volume 3, Issue 4, December, Available Online to Subscribing Institutions via Academic Search Elite, p. 340-343)

The effects of unemployment and other forms of economic insecurity just enumerated are largely personal and familial, costly to individuals, families and comniunities. There are other costly effects that may be more far reaching. In particular, the historical record, as I describe here, shows that structural violence has been associated with intergroup conflict and sometimes intergroup violence. When there is not enough pie for all to have a slice, fierce and sometimes bloody competition for the available slices is likely to ensue.

An Organization for Economic Cooperation and Development (OECD; 1994) jobs study hinted at the potential consequences of the high unemployment rate in the OECD nations. The persistence of this unemployment "is bound to undermine social cohesion and confidence in democratic institutions and market economies" (p.2).

The undermining of social cohesion by the operation of the economic structure has a long history. With profit as the driving motive, employers seek to reduce expenses to the bone. Wages being a major (if not the major) expense, employers have used every possible means to keep them at the lowest possible level. Over [end page 340] almost the last two centuries, that led them to measures such as the following to keep wages low and to prevent and discourage workers from organizing: eliminating jobs through advanced technology, employing children, encouraging immigration even to the extent of recruiting immigrants from their home countries, opposing labor unions, using strikebreakers, and limiting the size of any single immigrant group to prevent unified action (Schaefer, 1995). When unions in the northern United States succeeded in raising wages and improving working conditions, many employers moved their production to unorganized areas in the South. More recently, they have moved to low-wage Third World nations, displacing some workers and giving notice to others that future demands for wage increases could cost them their jobs.

The historical record of the linkage between structural violence and intergroup conflict in the United States is ample. In the words of historian Howard Zinn (1995),

The long hours in the factories, the sudden economic crises leading to high prices and lost jobs, the lack of food and water, the freezing winters, the hot tenements in the summer, the epidemics of disease, the deaths of children-these led to sporadic reactions from the poor. Sometimes there were spontaneous, unorganized uprisings against the rich. Sometimes the anger was deflected into racial hatred for blacks, religious warfare against Catholics, nativist fury against immigrants. Sometimes it was organized into demonstrations and strikes. (p. 216)

Instead of striking out against the male White establishment that was responsible for the conditions of the immigrants, they turned against each other. The Irish Americans opposed the freeing of the slaves because they feared the competition for the unskilled jobs that were open to them, a "fear that was confirmed when free Blacks were used to break a longshoremen's strike in New York" (Schaefer, 1995, p. 86).

In many respects, with the exception of Irish Americans, immigrants had been rather warmly welcomed until about 1880, when a prolonged depression coincided with the belated "recognition" that immigrants were inferior. At the time, the Chinese were being used as cheap labor and even as strikebreakers (Tarbell, 1948/1996). Native labor feared the competition of such immigrants and the upper classes feared class warfare. So, as historian William Appleman Williams (1961) said in regard to immigration, "That specter of devolution into social violence became one of the strongest themes of the era and strongly influenced the first restrictive legislation of 1882" (p. 323).

Whenever workers' livelihoods were threatened, the trade unions advocated restrictive immigration laws to bar those (e.g., from southern and central Europe, as well as Asia) who were accustomed to a meager livelihood, would underbid others and perhaps join the ranks of strikebreakers (Slosson, 1948/1996). Only when unions became industry-wide (e.g., the Congress of Industrial Organizations [end page 341] in the United States) rather than just narrow craft unions (e.g., carpenters or plumbers) did they find strength in the unity of all the workers and gain enormous victories (e.g., in the steel and auto industries in the 1930s). However, neither the restrictive immigration laws nor the rise of industry-wide unions prevented intergroup conflict and violence sparked by competition for jobs and other economic advantages. Employers took advantage of potential enmity. Referring to the enormous industrial expansion in the United States starting in about 1880, Zinn (1995) wrote that it was accomplished

with the aid of, and at the expense of, Black labor, White labor, Chinese labor, European immigrant labor, female labor, rewarding them differently by race, sex, national origin, and social class, in such a way as to create separate levels of oppression-a skillful terracing to stabilize the pyramid of wealth. (p. 247)

This was structural violence.

That relationships among groups are affected by economic conditions has been known at least since the landmark work of Hoviand and Sears (1940). Studying the correlation between the lynchings of Blacks and the level of economic prosperity in the South between the years 1880 and 1930, they found the number of lynchings decreased during prosperous years and increased during harsher times. Other studies also show that intergroup competition, especially for scarce resources, leads to hostile relationships. For example, the most common causes for brutal clan feuding in Morocco "involved disputations over water rights in lands parched as a result of inadequate rainfall, [and] soil to be employed for pasturage of trees whose fruit lay in dispute" (Lewis, 1961, p. 44).

The relation between unemployment and violence can be conceptualized in various terms such as frustration and aggression (Berkowitz, 1968) and prejudice and scapegoating (Sherif, 1966). The unavailability of jobs and the existence or the threat of economic insecurity may lead to aggression turned either inward, or in its socially violent form, turned outward. In its latter form, the frustrated, seeking a concrete target to strike out against, and allies with whom they can identify, may find both by selecting popular scapegoats-in particular, those who are seen as threatening their security. In the violent conflicts or warfare that ensue they are likely to engage in oversimplified, egocentric thinking (Tetlock & McGuire, 1986) and "groupthink" (Janis, 1982). However, they do not recognize that the prime roots of the violence rest in structures that tolerate, justify, and benefit from the economic conditions that give rise to insecurity and anger.

The linkage of structure and intergroup conflict was evident in the case of Germany's severe economic depression in the 1920s and the rise of the Nazis, followed by World War II and the Holocaust. Currently, the persecution of immigrants (e.g., in Europe) is, from the perspective of the ultra-nationalist political [end page 342] parties, a more acceptable outlet for anger over unemployment and threats to social benefits than attacks on the structure that creates those conditions.

It seems that a profound understanding of the requirements for peace is impossible without linking economic and psychological factors. In conflicts around the world the economic factor is a major contributor. It is intermeshed with issues over boundaries and ownership of land and natural resources, and the power and status accrued from those, and also with ethnicity, religion, race, and gender. Ultimately, the conflicts are very much about economic advantages that provide work, income, and wealth for "our own." In the wake of these conflicts comes the hate-filled concept of ethnic cleansing and the emergence of self-styled militias, which can only be fully understood when viewed as psychological attempts to cope with economic oppression.

#### Prefer our impact—history proves that unemployment risks catastrophic global conflicts.

Mead 94 — Walter Russell Mead, Senior Policy Adviser at the World Policy Institute, 1994 (“Economic Policy Institute Seminar And News Conference Regarding G-7 Jobs Conference In Detroit,” *Federal News Service*, March 11th, Available Online to Subscribing Institutions via Lexis-Nexis)

Okay, well, as I listened to people talk this morning, I was very happy to hear that we're saying that unemployment is more than a national problem and more than a simple economic problem, that the question of mass unemployment concentrated primarily among younger people and having an inevitable consequence of falling wages and work opportunities for the general population is also, in the long run, a threat to the democratic legitimacy of Western governments. This is not simply a technocratic, economic problem that we want to adjust 2 percent here or 1 percent there. This really goes to the heart of the question of the long-term survival of a lot of the values that we have and a lot of the institutions that we care about.

I'd like to add to that that unemployment is not unrelated to the question of world peace. We've had today hanging over us a couple of times mentions of hundreds of millions of people in developing countries who would like to join the advanced industrial democracies in their standards of living. We've spoken of the former communist states of Europe, all of whom are looking for a place at this table. Our modern economic system originated after the second world war with some very important insights, where people looked at why did the world get into World War II. And a big answer was the mass unemployment of the '30s that led to fascism, that led to a climate of international confrontation, and ultimately led to war.

And the idea that full employment was central to concept of building peace after the second world war. Today we tend to say that if you can get full employment at all it will follow free trade, if you -- you know, except for low interest rates and GATT there is essentially no Western program today for jobs. This is putting the cart before the horse in the view of the people who sort of originally designed the post-war system, where they said that free trade was actually a consequence of full employment rather than a cause of it. And I think you can still see that in that the ink is hardly dry on the Uruguay Round agreement when the United States and Japan are firing opening volleys in a trade war. So we are talking about the viability of our democratic systems of government and we are talking about world peace when we are talking about unemployment.

What is so interesting is the -- and alarming, is the enormous gap between the gravity and intractability of the problem and the very small scale measures being proposed to deal with it. I suspect that we will see out of this job conference a very few recommendations coming forward on improving the efficiency of labor, sort of marginal improvements, and there will be essentially a throwing up of the hands in despair about this thing.

All of us have spoken more or less this morning about the need for some kind of G-7 cooperation, international cooperation here. We've been talking about this for a long time, really since the Bretton Woods system broke down in the early 1970s. There have been a whole series of efforts to create some kind of international economic cooperation among the leading economies, and they have generally ended either in disaster or in platitude -- sometimes in both.

I think there is a reason for this; the reason is the fallacy of composition, a fallacy of composition similar to the one that Keynes looked at, talking about how a nation can save itself into poverty, that when times are bad what makes sense for the individual household or firm is to cut back on expenses, to draw in your horns; if you're a firm to defray any new investments, and so on. This exacerbates the national problem as people stop consuming and investing.

In the same way, when you have a difficult global economic climate, it makes sense for each country to try to bolster up its own finances, its own balance of trade. We've seen plenty of competitive devaluation. Indeed, here we are sitting in the international capital of competitive devaluation, widely considered in the '30s to be the most evil of all protectionist schemes, today endorsed and praised to the skies by people who enjoy reputations, even among financial journalists, if I can say so, as free traders. Competitive devaluation is a tariff, it is an attack on free trade. And yet somehow today this has become a normal part of international economic planning.

What is needed? Just as Keynes argued that you needed a macroeconomic policy agency looking at what is good for the entire national economy, you also need to have agencies in the world economy, in the global economy, whose mandate is for the health of the overall global economy.

The World Bank and the International Monetary Fund, the EBRD, the Inter-American Development Bank can all, I think, play a constructive role in this, although they need to have somewhat larger resources and to take a broader view of their mandates in some cases. But I think we need to clearly get beyond this notion of ever six months finance ministers sit down and issue a platitudinous communique saying, you know, basically all bad things should be reduced and all good things should be increased, and then we all go home. If we can't provide institutional, ongoing agencies for international cooperation, then we might as well just write the whole thing off. People have spoken about ideas like a global central bank. I would simply like to suggest here, rather than prescribing a lot of things, that there are ways in which a more demand-oriented, expansionary-oriented program can also be a more market-driven program and can reduce trade tensions as well as employment tensions among advanced countries.

To give you just a quick example, that instead of the advanced countries spending their time squabbling with each other over agricultural subsidies, it might be interesting to look at consumption subsidies for developing countries for hungry people, underfed people in the developing world. The same money now spent, essentially wasted, on agricultural subsidies for producers, if pumped onto the consumption side of the equation could reduce regulation, free up agricultural trade, and even potentially raise incomes of farmers in developed and developing countries.

There are ways in which institutions with a global mandate and whose basic charter is concern for the health and growth of the overall global economic system can relieve us of some of our problems and address even some of our particularly pressing political problems, such as the chaos and desperation that is threatening to turn Eastern Europe into an arena of, God forbid, nuclear war, but to make Yugoslavia, to make the Bosnian mess look like nothing, like an English soccer riot.

### Full Employment Key To Dignity

#### A commitment to full employment is crucial to affirm the dignity of every person.

Kochan and Shulman 7 — Thomas Kochan, George M. Bunker Professor of Management at the MIT Sloan School of Management and co-director of the MIT Workplace Center, and Beth Shulman, consultant and author of The Betrayal of Work: How Low-Wage Jobs Fail 30 Million Americans, 2007 (“A New Social Contract: Restoring Dignity and Balance to the Economy,” Economic Policy Institute Briefing Paper #184, February 22nd, Available Online at http://www.sharedprosperity.org/bp184.html, Accessed 11-17-2008)

A viable social contract must be grounded in a clear and widely shared set of values and expectations Americans have for work and its relationship to families and the society. Americans expect work to be a source of human dignity and growth. This is deep in our cultural and our religious heritages. By working, we develop as human beings, contribute to our society and communities, and provide for our families. We teach our children there is dignity and fulfillment in hard work and that by working hard in school and in their careers, opportunities will come their way. By instilling these values early in life and reinforcing them as adults, what we do for work and employment becomes an important part of our personal identity.

Given the importance of work to healthy individuals, our policies and institutions need to ensure that work provides a living wage, decent benefits, and the opportunity to use one's skills and abilities to their full potential. At a macro level, ensuring these necessities requires a commitment to a full-employment policy in practice and trade policies that work for ordinary workers and their families.

### Full Employment Key To Middle Class

#### Employment is key to a vibrant middle class—only increasing employment opportunities can combat inequality.

Kochan and Shulman 7 — Thomas Kochan, George M. Bunker Professor of Management at the MIT Sloan School of Management and co-director of the MIT Workplace Center, and Beth Shulman, consultant and author of The Betrayal of Work: How Low-Wage Jobs Fail 30 Million Americans, 2007 (“A New Social Contract: Restoring Dignity and Balance to the Economy,” Economic Policy Institute Briefing Paper #184, February 22nd, Available Online at http://www.sharedprosperity.org/bp184.html, Accessed 11-17-2008)

The policies, institutions, and practices governing employment relationships in America no longer serve the needs of today's working families and society at large. At a time of increased profits and productivity, wages have stagnated for everyday families, pension and health care coverage are declining, and costs are being shifted to workers. People are working harder and smarter, but they are not sharing in the gains from their efforts. The benefits of our economic growth have gone to the richest 10% of families, adding to our increasing economic inequality. Both mothers and fathers are working, yet most workplaces are outdated, forcing parents to choose between being a productive worker or a good family member. At the same time, America's safety net is being eroded at a time when jobs have become more insecure.

Millions of America's working families do not have the necessary means for basic self-sufficiency. And it looks no better for the next generation. In 2000, average high-school educated workers age 25-29 started out earning about $5,000 less real income and could expect slower growth in earnings than those who entered the labor force in 1970. Workers with some college started about $3,500 behind their 1970 counterparts.

The implicit social contract that governed work for many years—the norm that hard work, loyalty, and good performance will be rewarded with fair and increasing wages, dignity, and security—has broken down and been replaced by a norm in which employers give primacy to stock price and short-term gains often at the expense of America's workers.

The decline in middle-class living standards, the elimination of institutions that support a growing middle class, and the dramatic increase in income equality experienced in recent years, is not the result of some invisible hand. It is the direct result of policy choices that have undermined the bargaining power of everyday Americans. Instead of instituting policies in this global economy to ensure a broadly shared prosperity, we have made choices that benefit the few. At the same time, who works, how work is carried out, and the conditions of employment have changed dramatically in recent years, while the public policies, institutions, and practices governing work and employment relations, put in place in the 1930s to fit the industrial economy and workforce of that time, have not kept up.

As a result, the American Dream is slipping away from millions of Americans and their families. A majority of Americans now worry their children will not be able to improve on the standard of living they experienced growing up. If this is not the legacy we want to leave the next generation, then we need to start now to put in place forward-looking policies and labor market institutions to build a new social contract tailored to today's workforce, families, and economy.

#### A strong middle class is key to economic growth.

Konczal 12 — Mike Konczal, Fellow at the Roosevelt Institute, 2012 (“Why a Strong Middle Class Is Necessary For Growth,” *Next New Deal*—the blog of the Roosevelt Institute, May 18th, Available Online at http://www.nextnewdeal.net/rortybomb/why-strong-middle-class-necessary-growth, Accessed 06-12-2012)

Heather Boushey and Adam S. Hersh from the Center for American Progress have a new paper out, "The American Middle Class, Income Inequality, and the Strength of Our Economy: New Evidence in Economics," that summarizes the case for why inequality can damage the economy. They start by reviewing the literature trying to link income inequality and growth, and find that the link is, if anything, in the other direction. "Roland Benabou of Princeton University surveyed 23 studies analyzing the relationship between inequality and growth. Benabou found that about half (11) of the studies showed inequality has a significant and strongly negative effect on growth; the other half (12) showed either a negative but inconsistently significant relationship or no relationship at all. None of the studies surveyed found a positive relationship between inequality and growth."

But why should this be? If the long-term health of the economy is driven by human capital, savings, and technology, what does inequality have to do with anything? Here is where they create a map of the arguments through which a strong middle class and a more egalitarian distribution of income can build long-term growth:

We have identified four areas where literature points to ways that the strength of the middle class and the level of inequality affect economic growth and stability:

• A strong middle class promotes the development of human capital and a well educated population.

• A strong middle class creates a stable source of demand for goods and services.

• A strong middle class incubates the next generation of entrepreneurs.

• A strong middle class supports inclusive political and economic institutions, which underpin economic growth.

They pull together the current research, as well as the range of supporting evidence, for each point. They focus on how educational attainment is becoming more tied to parents' income, the instability of growth and macroeconomic risks to weak middle-class demand, the fact that the Kauffman Foundation found that less than 1 percent of entrepreneurs come from extremely poor or extremely rich backgrounds, and the way inequality is involved with our polarized politics. All of these have consequences for our economy.

## \*\*\* Evidence Comparison Materials

### Indict — Deficit Hawks (All-Purpose)

#### Treat their authors with extreme skepticism—special interests and corporate hacks are poisoning the public sphere with anti-deficit hysteria.

Baker 10 — Dean Baker, Co-Director of the Center for Economic and Policy Research, 2010 (“The Budget Deficit Crisis Crisis,” *The Huffington Post*, February 8th, Available Online at http://www.huffingtonpost.com/dean-baker/the-budget-deficit-crisis\_b\_453872.html, Accessed 02-10-2010)

The country faces a serious crisis in the form of a manufactured crisis over the budget deficit. This is a crisis because concerns over the size of the budget deficit are preventing the government from taking the steps needed to reduce the unemployment rate. This creates the absurd situation where we have millions of people who are unemployed, not because of their own lack of skills or unwillingness to work, but because people like Alan Greenspan and Ben Bernanke mismanaged the economy.

The basic story is very simple and one that we have known since Keynes. We need to create demand in the economy. The problem is that as a society, we are not spending enough to keep the economy running at capacity. Prior to the collapse of the housing bubble, the economy was driven by booms in both residential and non-residential construction. It was also driven by a consumption boom that was in turn fueled by the trillions of dollars of ephemeral housing bubble wealth.

With the collapse of the bubbles, both residential and non-residential construction have collapsed. There is a huge of amount of excess supply in both markets, which will leave construction badly depressed for years into the future. Together, we have lost well over $500 billion in annual demand from the construction sector. In addition, the loss of the ephemeral wealth created by the bubble has sent consumption plummeting, leading to the loss of an additional $500 billion a year in annual demand.

The hole from the collapse of construction and the falloff in consumption is more than $1 trillion a year. The government is the only force that can make up this demand. However, this means running large deficits. To boost the economy, the government must spend much more than it taxes.

The stimulus approved by Congress last year was a step in the right direction this way, but it was much too small. After making adjustments for some technical tax fixes and pulling out spending for later years, the stimulus ended up being around $300 billion a year. Even this exaggerates the impact of the government sector, since close to half of the stimulus is being offset by cutbacks and tax increases at the state and local level.

The answer in this situation should be simple: more stimulus. But the deficit hawks have gone on the warpath insisting that we have to start worrying about bringing the deficit down. They have filled the airwaves, print media, and cyberspace with solemn pronouncements about how the deficit threatens to impose an ungodly burden on our children.

This is, of course, complete nonsense. Larger deficits in the current economic environment will only increase output and employment. In other words, larger deficits will put many of our children's parents back to work. Larger deficits will increase the likelihood that parents can keep their homes and provide their children with the health care, clothing and other necessities for a decent upbringing. But, the deficit hawks would rather see our children suffer so that we can have smaller deficits.

In spite of the deficit hawks' whining, history and financial markets tell us that the deficit and debt levels that we are currently seeing are not a serious problem. The current projections show that even ten years out on our current course the ratio of debt to GDP will be just over 90 percent. The ratio of debt to GDP was over 110 percent after World War II. Instead of impoverishing the children of that era, the three decades following World War II saw the most rapid increase in living standards in the country's history.

We can also look to Japan, which now has a debt to GDP ratio of more than 180 percent. Investors are not running from Japanese debt. They are willing to hold long-term debt at interest rates close to 1.5 percent. In our own case, the 3.7 percent interest rate on long-term Treasury bonds remains near a historic low.

The story is that we are forcing people to be out of work -- unable to properly care for their children -- because people like billionaire investment banker Peter Peterson and his followers are able to buy their way into and dominate the public debate. The reality is that we have an unemployment crisis today, not a deficit crisis. The only crisis related to the deficit is that people with vast sums of money (i.e. the people who wrecked the economy) have been able to use that money to make the deficit into a crisis.

### Indict — Conservative Think Tanks

#### Right wing think tanks are just ideological spin machines—“evidence” from their so-called “experts” should be disregarded as unscientific.

Abrams 7 — Paul Abrams, B.A. in Political Science and Economics, J.D., and M.D. from Yale University, Biotechnology Consultant, has published more than 35 peer-reviewed articles, Board Member of the Washington Progress Alliance, the Women's Bioethics Project, the Apollo Alliance, and the Economic Opportunity Institute, has testified before Congress, 2007 (“Belief Tank=Think Tank Without the Doubt,” *The Huffington Post*, January 30th, Available Online at http://www.huffingtonpost.com/paul-abrams/belief-tankthink-tank-wit\_b\_40036.html, Accessed 04-27-2010)

Gary Trudeau's Sunday Doonesbury has, once again, crystallized a social phenomenon into a simple, revealing phrase. Discussing the Bush Library's unprecedented budget, one Doonesbury character suggests that it will also be a "think tank", to which others respond that it will be a "belief tank", defined as a think-tank-without-the-doubt.

Goebbels' observation about the power of the "big lie" can, with modern technology, now trickle down even to small lies. For 30 years the radical rightwing has funded its own institutions, such as Heritage Foundation, supposedly to "investigate" social and political issues and to publish the results of those "investigations". They rigorously screen the views of potential hires to ensure they are ideologically pure (to be an intern at the Heritage Foundation, students had to pass a litmus test to ensure not a whisper of free thinking remained), and their results, curiously, always seem to support the economic interests of their funders.

Between $300 and $400 MILLION per YEAR is spent on these radical rightwing institutions. Their corporate sponsors are accustomed to getting returns-on-investment ("ROI" in the biz), and cutting funding from operations that do not produce good ROI.

Belief tanks deliver for them. Starting with a pre-ordained conclusion, the "investigation" focuses on finding those facts that can be woven into a supporting fabric. Contrary facts are ignored; if they are too powerful to be ignored, the integrity of their sources are impugned.

By contrast scientific (or other free-thinking) processes begin with an hypothesis (to organize the investigation), with the hypothesis rejected if facts do not support it. In the midst of the First World War, Einstein demonstrated this scientific temperament. He convinced the British government to fund a major project (with no military value) to measure a prediction from his Relativity Theory (there's that word "theory", which is the scientific term for an hypothesis that has been well-established by observation such as, say, the Theory of Gravity). "The prediction", said the Nobel Laureate, "if proven wrong by this observation, would disprove my theory". That is how a real think tank should operate.

By contrast the tobacco industry discovered decades ago how to deal with "inconvenient (to the bottom line)" truths. The link between cigarette smoking and lung cancer was, we were told for decades, "only statistical". That is because no one could figure out how to coax laboratory rats to inhale; they were not that stupid. To provide a reference point, the link between rubella (aka, "the German measles") in the first trimester of pregnancy and severe birth defects was also "only statistical". Thankfully, rubella has no commercial value.

The mainstream media has fallen, hook-line-and-sinker, for this subterfuge. Insulated by one-degree of separation from their corporate sponsors, Heritagers and their ilk appear not only on radical rightwing mass media, but also in the MSM without any identification except their institutional connection. Idealogues are given equal time and thus the imprimatur of legitimacy to peddle their pre-ordained beliefs as facts.

#### Conservative think tanks are academically indefensible—disregard all evidence from these so-called “scholars”.

Boyles 5 — Deron R. Boyles, Professor of Social Foundations & Social Foundations of Education at Georgia State University, 2005 (“Institutes, Foundations, and Think Tanks: Conservative Influences on U.S. Public Schools,” Georgia State University Department of Educational Policy Studies, Available Online at http://digitalarchive.gsu.edu/eps\_facpub/1/, Accessed 04-26-2010)

While we acknowledge that to some degree all scholars are advocates, the goal of university research is scholarship, whereas the goal of conservative think tanks is developing and promoting monolithic, self-serving narratives. Scholars of conservative think tanks put advocacy first, which colors their “research.” That is, they know what they want to find before they even begin looking. Advocates passing themselves as objective scholars are obviously problematic. One concerned scholar is Andrew Porter, president of the American Educational Research Association. Porter believes that in order “to bring about educational change, I believe advocacy is required. And I would hope that advocates would look to educational research as one source of the basis for their advocacy...In education research, however, I think there’s no room for advocacy” (Viadero, 2002). Unfortunately, “scholars” at some institutes blur or cross the line between the two, ignoring academic conventions in order to produce “research” that meets their needs.

Most academic journals have a system of blind, peer review, where research is vetted by several scholars before being published. However, some conservative researchers, like Chester Finn, “don’t have much use for peer review in education research” (Viadero, 2002). In fact, Finn himself, with the help of Diane Ravitch (one of Fordham’s founding scholars), conducts the “peer review” for Fordham reports (Viadero). This is akin to letting Firestone test its own tires and is problematic given the fact that institutes like The Fordham Foundation are growing increasingly powerful in the world of education reform. If their “research” and their reports merely reflect predetermined positions, then think tanks do not produce scholarly reports, they produce propaganda for like-minded policy makers.

### Indict — The Heritage Foundation

#### The Heritage Foundation is a hired gun for corporate interests—disregard this “evidence”.

Tevelow 5 — Amos A. Tevelow, Ph.D. Candidate in the Department of Communication at the University of Pittsburgh, 2005 (“From Corporate Liberalism To Neoliberalism: A History Of American Think Tanks,” Thesis Submitted to the Graduate Faculty of Arts and Sciences in partial fulfillment of the requirements for the degree of Doctor of Philosophy, Available Online at http://etd.library.pitt.edu/ETD/available/etd-08192005-162045/unrestricted/FinalTevelowETD.pdf, Accessed 04-25-2010, p. 174-175)

Heritage is significant not only because of its real or perceived influence on public policy, but because it stood as a model for other explicitly ideological and aggressively marketed think tanks (Citizens for a Sound Economy, Competitive Enterprise Institute, Heartland Institute, and others). The New Right think tanks sloughed off the nonpartisan self-understanding of the proto-tanks as a useless anxiety, wearing their conservative ideology on their sleeves. The desire to be objective and perceived as such, an anxiety rife through much of think tank history, doesn’t vex advocacy tanks, except to the extent that they need to employ such rhetoric to maintain a non-profit, tax-exempt status. As self-conscious proponents of a neoliberal system, they are proud hired guns who know that their own viability depends on their ability represent the interests of their corporate benefactors as common interests, and have had no problem entering the fray of ideas with explicit agendas, offering the free market as a corrective to “creeping socialism” and “liberal elites” in America. While speaking of Great Britain, Stuart Hall’s pioneering Gramscian interpretation of “Thatcherism” applies just as well to this aspect of the American case518: [end page 174]

Thatcherism...[is] not simply a worthy opponent of the Left, but in some deeper way its nemesis, the force that is capable in this historical moment of unhingeing it from below.519

Its sheer audacity as an ideological crusade marks conservatism as a hegemonic project.

### Indict — The Peter G. Peterson Foundation

#### Their deficit projections are made up by the Peterson Foundation.

Kuttner 10 — Robert Kuttner, Co-Founder and Co-Editor of The American Prospect and Senior Fellow at Demos—a non-partisan public policy research and advocacy organization, former Professor at Brandeis University, The University of Massachusetts, Boston University, and the Institute of Politics at Harvard University, former national staff writer for the Washington Post, former Chief Investigator of the U.S. Senate Banking Committee, 2010 (“Progressive Revenue As The Alternative To Caps, Commissions, And Cuts,” *Funding America's Priorities: The Possibilities And Politics Of Raising Revenues*, Sponsored by the Scholars Strategy Network, February 25th, Available Online at http://www.scholarsstrategynetwork.org/pdfs/Progressive\_Revenue\_as\_the\_Alternative-Robert\_Kuttner.pdf, Accessed 04-26-2010, p. 20)

The Peterson Foundation’s central claim of over $50 billion in unfunded liabilities is arrived at by miscounting apples and oranges. The only true figure for debt—that is, debt on which actual interest is paid by taxpayers—is the public debt held by the public, estimated as of January 12, 2009, according to the Treasury, is $7,781,352,915,790.80.20

The Treasury Department’s figure for public debt is about 54 percent of GDP, a far smaller portion of GDP than at any time during the quarter-century after World War II, a period of record economic boom. The rest of the Peterson Foundation’s fanciful arithmetic is derived by adding debt that one government agency owes to another (another roughly $4.5 billion) as well as the projected seventy-five-year deficits for Social Security, Medicare, and Medicaid, using worst-case scenarios. About four-fifth of this projection is Medicare.

#### And—their evidence is just a ploy for Peterson to make more money—disregard it.

Kuttner 10 — Robert Kuttner, Co-Founder and Co-Editor of The American Prospect and Senior Fellow at Demos—a non-partisan public policy research and advocacy organization, former Professor at Brandeis University, The University of Massachusetts, Boston University, and the Institute of Politics at Harvard University, former national staff writer for the Washington Post, former Chief Investigator of the U.S. Senate Banking Committee, 2010 (“Progressive Revenue As The Alternative To Caps, Commissions, And Cuts,” *Funding America's Priorities: The Possibilities And Politics Of Raising Revenues*, Sponsored by the Scholars Strategy Network, February 25th, Available Online at http://www.scholarsstrategynetwork.org/pdfs/Progressive\_Revenue\_as\_the\_Alternative-Robert\_Kuttner.pdf, Accessed 04-26-2010, p. 16-18)

A politics of chronic deficits, however, was a political windfall for a very different sort of conservative—critics of social insurance. For a quarter century, the private-equity billionaire Peter G. Peterson and his allies have been warning that excess spending on entitlements would crash the American economy. In the course of four books, all variations on the same argument, he has sounded increasingly dire in his predictions that accumulated public debt, visible and invisible, would produce economic [end page 16] collapse. His warnings did not abate even in the late 1990s, when endless budget surpluses were projected.

The prime culprit, in this analysis, is “unfunded liabilities” of over $50 trillion dollars, most notably Social Security and Medicare, plus more the $13 billion of explicit government debt. This imbalance will supposedly drain money away from all other public needs, cause financial markets to lose confidence in the ability of the U.S. government to pay its debts, erode the value of the dollar, raise interest rates, and require a doubling of the tax load.

When an actual financial collapse materialized, of course, it had nothing to do with social insurance or unfunded liabilities or projections of long term public debts -- and everything to do with financial deregulation. Peterson cashed in his stake in the Blackstone Group, which went public in 2007, walking away with well over $1 billion, just before the sky really did come crashing down. Indeed, in the wake of this economic collapse, it is programs such as Social Security, Medicare, and Medicaid that have proven to be the last line of defense for millions of Americans confronting hardship. Privatized forms of retirement income are pro-cyclical. Just when people needed them most, they lost value along with the rest of the economy. Only public social insurance remained reliably counter-cyclical.

Peterson is devoting over a billion dollars to institutionalize his message about the importance of cutting social programs, through the Peter G. Peterson Foundation. The foundation was established in early 2008 and is headed by David Walker, the former U.S. Comptroller General. Peterson’s foundation is at the center of a network of fiscal conservatives who include the Concord Coalition, a major program at the New America [end page 17] Foundation, a joint Brookings-Heritage Fiscal Seminar, another joint program with the Pew Charitable Trusts, the Washington Committee for a Responsible Budget, and the Hamilton Project at the Brookings Institution.

### Indict — Mark Skousen

#### Mark Skousen is a John Birch extremist—he has zero credibility.

Neiwert 8 — David Neiwert, freelance journalist and blogger, won the National Press Club Award for Distinguished Online Journalism, B.A. in English from the University of Idaho, author of several books, 2008 (“How the mighty do fall: Ann Coulter pitching right-wing stock-tip scams,” *Crooks and Liars*, November 20th, Available Online at http://crooksandliars.com/david-neiwert/how-mighty-do-fall-ann-coulter-pitch, Accessed 04-27-2010)

That's all just throat-clearing, though, for Coulter's main pitch: She's selling you a financial newsletter written by a fellow named Mark Skousen, whose PhD in economics seems to impress Coulter mightily (if only she gave as much credence to people who actually won the Nobel Prize in economics).

Three years ago, Skousen was selling the same scam through the Heritage Foundation, promising super-hot stock tips if only you subscribed to his pricey investment newsletter. No word on how that hot tech stock actually did -- but I'd wager it performed about as well [as] the return on assisting former Nigerian prime ministers.

Skousen, however, is not just your average "conservative economist." He actually is an adherent of the same far-right school of "libertarian" economics as Ron Paul: he advocates a return to the gold standard, the dismantling of the IRS and the Federal Reserve, and most of the other conspiratorial nonsense that accompanies these theories. Like Paul, he's a devotee of the Ludwig Van Mises Institute, which promotes much of this malarkey, and he's likewise actually a Bircherite in libertarian clothing. Indeed, Paul was one of the headliners at Skousen's "FreedomFest" earlier this year in Las Vegas.

Like most of the Bircher wing of the libertarian movement, Skousen consistently takes a far-right political position on labor issues, too. He wrote a piece denouncing "card check" union organizing just last month.

Skousen is the nephew of the late noted John Birch/Mormon figure W. Cleon Skousen; his brother, Joel Skousen, is famous for promoting Patriot-style "New World Order" conspiracy theories. All three of them promote the far-right version of "constitutionalism," which is all about the belief that secret elites manipulate the economy and the political process, wield the IRS and Federal Reserve as political weapons along with a huge federal bureaucracy, all of which violates the original unamended (or "organic") Constitution.

So this is what Ann Coulter is reduced to these days: Shilling for Patriot-style right-wing moneymaking scams.

### A2: Indicts Apply To Your Evidence, Too

#### Our indictment of conservative think tanks does not apply to evidence from “liberal” think tanks—there’s no comparison.

Tevelow 5 — Amos A. Tevelow, Ph.D. Candidate in the Department of Communication at the University of Pittsburgh, 2005 (“From Corporate Liberalism To Neoliberalism: A History Of American Think Tanks,” Thesis Submitted to the Graduate Faculty of Arts and Sciences in partial fulfillment of the requirements for the degree of Doctor of Philosophy, Available Online at http://etd.library.pitt.edu/ETD/available/etd-08192005-162045/unrestricted/FinalTevelowETD.pdf, Accessed 04-25-2010, p. 266-267)

In addition, at the purely rhetorical level, liberal foundations are not “liberal” in the same way that conservative ones are conservative. They have no explicit ideological program, other than the vague commitments to education and public service that characterize all nonprofit organizations. Where a Scaife foundation feels no compunction about giving money to an organization dedicating itself to the repeal of the welfare state (Heritage), a Ford or a Carnegie is much less likely to commit funds to organizations expressing even the mildest language about mitigating the negative effects of an unbridled free market. They will give to centrist [end page 266] organizations for politically safe policy research, but not to a network of committed activists seeking to proclaim loudly in national media outlets a wide-ranging program of social justice. 779

#### And—don’t conflate advocacy by conservative think tanks with academic scholarship.

Tevelow 5 — Amos A. Tevelow, Ph.D. Candidate in the Department of Communication at the University of Pittsburgh, 2005 (“From Corporate Liberalism To Neoliberalism: A History Of American Think Tanks,” Thesis Submitted to the Graduate Faculty of Arts and Sciences in partial fulfillment of the requirements for the degree of Doctor of Philosophy, Available Online at http://etd.library.pitt.edu/ETD/available/etd-08192005-162045/unrestricted/FinalTevelowETD.pdf, Accessed 04-25-2010, p. 201-202)

What makes the post-1970s think tank era unique is not just right wing public relations techniques, or the shift by all tanks to be “much more self-conscious about getting the word out.”618 What the sloughing of the rhetoric of neutral objectivity indicates is that pretense of neutrality and dispassionate research is simply no longer necessary to intensify capitalist economic development. From capital’s perspective, the intensification of a war of ideas through the political mobilization of business and the marketing of ideological think tanks was an appropriate response to systemic crises. The criteria for political judgment in this jungle of competing language games were up for grabs, as Lyotard might say.619 If we receive the traditional view that Marx ‘turned Hegel on his head’ by promoting materialism over idealism, then we might say that free market think tanks have returned the production and circulation of intellectual credibility to the center as a motor force in history. An AEI “fellow” has all of the benefits and much of the prestige of academia without the burdensome tasks of teaching, grading, or going up for tenure. When congressional or news workers look for authoritative [end page 201] expertise, a Heritage Foundation backgrounder or book can have as much sway as a peer-reviewed academic journal article or study. In this context it is not scientific expertise, but the “the political mood of the times, along with the persuasiveness or prestige of the policy advocate, [that] will usually be the primary determinants of the acceptability of a particular policy proposal.”620

### Prodict — Dean Baker

#### Prefer evidence from Dean Baker—he’s been right when everyone else was wrong and he’s not a shill for special interests.

Nichols 10 — John Nichols, Associate Editor of *The Capital Times*—a Madison, WI newspaper, 2010 (“Dean Baker: Economist who saw it coming,” *The Capital Times*, April 18th, Available Online at http://host.madison.com/ct/news/opinion/column/john\_nichols/article\_cab0df22-c5e3-504c-817e-c5da5a62cc59.html, Accessed 04-27-2010)

More than five years before the 2008 meltdown, Dean Baker warned about the threat posed by the housing bubble that the Bush/Cheney White House and so many business pundits were busy talking up. “If housing prices fall back in line with the overall rate price level ... it will eliminate more than $2 trillion in paper wealth and considerably worsen the recession,” explained Baker. “The collapse of the housing bubble will also jeopardize the survival of Fannie Mae and Freddie Mac.”

The problem was that Cheney and most of the rest of the D.C. insiders did not choose to listen to a serious economic analyst like Baker, co-director of the Center for Economic and Policy Research in Washington.

But Americans who actually care about the future not just of the economy but of the republic should take their counsel from Baker, whose brilliant new book, “False Profits: Recovering From the Bubble Economy,” offers a detailed examination of what caused the current economic crisis and a savvy agenda for cleaning up the mess.

University of Texas economics professor James K. Galbraith argues: “Dean Baker blows away smoke screens and names the real culprits. Along the way, he hands up an indictment of economists — in government and academia — who for years could not see what was in front of their noses.”

Nomi Prins, the former managing director at Goldman Sachs who became a Wall Street whistle-blower, says: “Dean Baker has an incredible ability to simplify the complex and distill economic history into its most critical components. In ‘False Profits,’ he squarely lays the blame for our current financial mess on the anemic leaderships of an elite group of men who remain unaccountable. After delivering this necessary dose of truth, Baker outlines practical solutions to achieve lasting future stability — solutions Washington should take seriously, before Wall Street is allowed to inhale many more trillions of our taxpayer dollars.”

Baker is an American treasure: an economist who gets it right, and who thinks it is his job to serve the national interest rather than to cheerlead for Wall Street.

Dick Cheney may not listen to him.

But the rest of us should. And we’ll have a chance next Saturday, April 24, when Baker is the featured speaker at the Madison Institute’s “Midge Miller Memorial Celebration.” The forum begins at 9 a.m. at the Chazen Auditorium, 800 University Ave.

Don’t miss it if you want to hear the man who was “smart enough to figure that out.”